

Pension Board Agenda



To: Michael Ellsmore (Chair)
Co-optees: Richard Elliott, Teresa Fritz, Ava Payne and David Whickman
Councillor Humayun Kabir

A meeting of the **Pension Board** which you are hereby summoned to attend, will be held on **Thursday, 13 January 2022 at 2.00 pm**. This meeting will be held remotely, and can be viewed [here](#).

JOHN JONES
Monitoring Officer
London Borough of Croydon
Bernard Weatherill House
8 Mint Walk, Croydon CR0 1EA

Democratic Services
Democratic.Services@croydon.gov.uk
www.croydon.gov.uk/meetings
Wednesday, 5 January 2022

Please note that this meeting is being held remotely. You can view the webcast both live and after the meeting has completed at webcasting.croydon.gov.uk/14199-Pension-Board

N.B This meeting will be paperless. The agenda can be accessed online at www.croydon.gov.uk/meetings

AGENDA – PART A

1. Apologies for Absence

To receive any apologies for absence from any members of the Board.

2. Disclosure of Interests

In accordance with the Council's Code of Conduct and the statutory provisions of the Localism Act, Members and co-opted Members of the Council are reminded that it is a requirement to register disclosable pecuniary interests (DPIs) and gifts and hospitality to the value of which exceeds £50 or multiple gifts and/or instances of hospitality with a cumulative value of £50 or more when received from a single donor within a rolling twelve month period. In addition, Members and co-opted Members are reminded that unless their disclosable pecuniary interest is registered on the register of interests or is the subject of a pending notification to the Monitoring Officer, they are required to disclose those disclosable pecuniary interests at the meeting. This should be done by completing the Disclosure of Interest form and handing it to the Democratic Services representative at the start of the meeting. The Chair will then invite Members to make their disclosure orally at the commencement of Agenda item 3. Completed disclosure forms will be provided to the Monitoring Officer for inclusion on the Register of Members' Interests.

3. Urgent Business (if any)

To receive notice of any business not on the agenda which in the opinion of the Chair, by reason of special circumstances, be considered as a matter of urgency.

4. Review of Breaches Log (Pages 5 - 20)

This report presents the current log (Appendix A) for the Board's consideration.

5. Pension Committee - 3 December 2021 (Pages 21 - 24)

This report summarises the reports and the discussions thereon on the agenda considered at the meeting of the Pension Committee on 3 December 2021.

6. Government Actuary's Department – Section 13 Analysis of LGPS 2019 Actuarial Valuation (Pages 25 - 88)

This report includes the findings of the review of the 2019 Actuarial Valuation carried out by the Government Actuary's Department.

- 7. Update on Progress of Governance Review** (Pages 89 - 92)
This reports includes the actions recommended by the latest report of the Governance Review and discusses how these will be achieved.
- 8. Croydon Pensions Administration Team Key Performance Indicators** (Pages 93 - 94)
This report sets out Key Performance Indicators for the administration of the Local Government Pension Scheme (LGPS) for the three month period up to the end of November 2021.
- 9. Local Government Pension Scheme Advisory Board / The Pensions Regulator Update** (Pages 95 - 100)
This report advises the Board of the matters currently being considered by the Local Government Pension Scheme Advisory Board and The Pensions Regulator which are relevant to the Fund.
- 10. Online Learning Opportunities** (Pages 101 - 102)
This report updates the Board on the availability of online learning opportunities to allow Members to develop their skills in line with the Fund's Knowledge and Skills Policy.
- 11. Exclusion of the Press and Public**
The following motion is to be moved and seconded where it is proposed to exclude the press and public from the remainder of a meeting:

"That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended."

PART B

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REPORT TO:	Pension Board 13 January 2022
SUBJECT:	Review of Breaches Log
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury
1. RECOMMENDATIONS	
1.1	The Board is asked to note the contents of the Pension Fund Breaches Log and to comment as appropriate.

2. EXECUTIVE SUMMARY

- 2.1 It is a requirement of The Pension Regulator for the Pension Fund to maintain a breaches log detailing incidences where breaches have occurred. In line with the recommendations of the Aon Governance Review, on 15 September 2020 the Committee agreed the revised Reporting Breaches of the Law Policy. This included a requirement for the Committee to monitor breaches on a regular basis. This report presents the current log (Appendix A) for the Board's consideration.

3 DETAIL

- 3.1 The Pension Act 2004 (PeA 2004, s 70) imposes duties on certain persons to report breaches of the law as follows:

70 Duty to report breaches of the law

(1) Subsection

(2) imposes a reporting requirement on the following persons —

(a) a trustee or manager of an occupational or personal pension scheme;

(b) a person who is otherwise involved in the administration of such a scheme;

(c) the employer in relation to an occupational pension scheme;

(d) a professional adviser in relation to such a scheme;

(e) a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme.

(2) Where the person has reasonable cause to believe that -

- (a) a duty which is relevant to the administration of the scheme in question, and is imposed by or by virtue of an enactment or rule of law, has not been or is not being complied with, and
 - (b) the failure to comply is likely to be of material significance to the Regulator in the exercise of any of its functions, he must give a written report of the matter to the Regulator as soon as reasonably practicable.
- (3) No duty to which a person is subject is to be regarded as contravened merely because of any information or opinion contained in a written report under this section.

This is subject to section 311 (protected items).

- (4) Section 10 of the Pensions Act 1995 (c. 26) (civil penalties) applies to any person who, without reasonable excuse, fails to comply with an obligation imposed on him by this section.

3.2 In line with this legislation The Pensions Regulator requires that a Breaches Log is maintained by the Fund. In their Governance Review Aon recommended that the log was reviewed regularly by the Pension Committee. It was last reviewed by the committee on 3 December 2021. The current log is attached (Appendix A).

3.3 In this context a breach of the law is “an act of breaking or failing to observe a law, agreement, or code of conduct.” In the context of the LGPS this can encompass many aspects of the management and administration of the LGPS, including failure:

- to do anything required under the Regulations;
- to do anything required under overriding legislation, applicable statutory guidance or codes of practice;
- to maintain accurate records;
- to act on any fraudulent act or omission that is identified;
- to comply with policies and procedures (e.g. the Fund’s statement of investment principles, funding strategy, discretionary policies, etc.);
- of an employer to pay over member and employer contributions on time;
- to pay member benefits either accurately or in a timely manner;
- to issue annual benefit statements on time or non-compliance with the Code.

3.4 Since the Committee last reviewed the Log 1 entry has been removed and 3 entries have been amended. The entry removed is in respect of failure of the scheme employer to obtain a report from a Registered Medical Practitioner as it applied to October 2017 and is outside of the previous three year period covered by the log. The entries that have been amended are in respect of failure to pay a refund of scheme contributions which has been updated to show

case numbers at 31 October 2021 and the average value of each refund, the entry around failure to produce meeting minutes which has been updated in light of the report considered by the Committee at the 3 December 2021 meeting and the entry concerning failure to publish the Fund accounts for 2019/20.

4. DATA PROTECTION IMPLICATIONS

4.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?

NO

Approved by: Nigel Cook, on behalf of Richard Ennis, Interim Corporate Director of Resources (Section 151) and Deputy Chief Executive

CONTACT OFFICER:

Nigel Cook, Head of Pensions and Treasury, Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

None

APPENDIX:

Appendix A - Breaches Log

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Date	Category	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to the breach	Reported/Not reported (with justification if not reported and dates)	Traffic light colour	Outcome of report and or investigations	Outstanding actions	Comments
Aug-19	Administration	Failure to produce 100% of Annual Benefit Statement notifications	Members and former members do not receive have up to date information on the value of their LGPS benefits affecting their ability to make informed decisions around pension provision. Non-compliance with LGPS regulations timescales. Member has been unable to check personal data is complete and accurate or that the correct contributions have been credited.	Error reports identified members without statements which the technical team checked. Some had not required a statement as they had not passed an increase date. The remainder had the issues resolved and statements were sent out.	the matter was not referred to the Pensions Regulator. All the issues were identified through error reports and resolved. Statements were sent to all individuals where a statement was required. No further action was needed.		Not reported. Only 3.36% for active and 2% for deferred members not issued. The issues are being addressed so that notifications can be sent.		

<p>Aug-20</p>	<p>Administration</p>	<p>Failure to produce 100% of Annual Benefit Statement notifications</p>	<p>Members and former members do not receive have up to date information on the value of their LGPS benefits affecting their ability to make informed decisions around pension provision. Non-compliance with LGPS regulations timescales. Member has been unable to check personal data is complete and accurate or that the correct contributions have been credited.</p>	<p>Error reports identified members without statements which the technical team checked. There was an error suppressing ABS for members over age 65 and under NPA. The technical team issued 98.69% of the statements due. They are continuing to work on the remainder.</p>	<p>The matter was not referred to the Pensions Regulator. All the issues were identified through error reports and are being resolved. Statements have been or are being sent to all individuals where a statement was required.</p>		<p>Not reported. Only 2.12% for active and 0.27% for deferred members not issued. The issues are being addressed so that notifications can be sent.</p>		
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<p>Aug-21</p>	<p>Administration</p>	<p>Failure to produce 100% of Annual Benefit Statement notifications</p>	<p>Members and former members do not receive have up to date information on the value of their LGPS benefits affecting their ability to make informed decisions around pension provision. Non-compliance with LGPS regulations timescales. Member has been unable to check personal data is complete and accurate or that the correct contributions have been credited.</p>	<p>The team managed to issue 99.94% of annual benefit statements.</p>	<p>The matter was not referred to the Pensions Regulator. All the issues were identified through error reports and are being resolved. Statements have been or are being sent to all individuals where a statement was required.</p>		<p>Not reported. Officers will continue to attempt to resolve any outstanding issues so that the remaining notifications can be sent.</p>		
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Jan-21	Administration	Failure to inform 100% of scheme members of their calculated benefits (refund or deferred) – backlog cases	Members and former members do not receive have up to date information on the value of their LGPS benefits affecting their ability to make informed decisions around pension provision. Non-compliance with LGPS regulations timescales. Member has been unable to check personal data is complete and accurate or that the correct contributions have been credited.	Historical backlog is impacting performance. Hymans Robertson have been engaged to provide administration services to clear this backlog,	The issue has been identified and action taken to rectify it. Outsourcing the historical backlog provides greater administrative capacity , mitigating the risk of recurrence. This has therefore been judged as not necessary to report to the Pensions Regulator.		Not reported to The Pensions Regulator.		
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Sep-21	Administration	Failure to pay a refund of scheme contributions to members of the pension fund, who left after the 01 April 2014 with less than two years membership, within 5 years of leaving (regulation 18(5) of the LGPS Regulations 2013). Number of cases as at 31 October 2021 is 249. The average net refund value per case is £333.74	Possible tax implications for the member if the refund is paid after 5 years. Burden of administration resources to repeatedly chase members.	Administration team use last known address or email address provided by the employer to send details to former members making them aware of their options and the 5 year deadline when leaver calculation processed. A quarterly check of the LGPS NI database is made to see if an automatic transfer is due to another LGPS fund. Reports run quarterly to find those approaching 5 year period/age 75 – admin team to try to make contact again – address searches carried out if required.	The matter has not been reported to the Pension Regulator. The fund has made all reasonable efforts to trace and inform members of their options. The fund is reliant on members responding in order to comply with the regulations. The Fund's approach is in line with Technical Group recommendations (see Technical Group minutes 28 September 2018)		N/A		https://www.lgpslibrary.org/assets/minutes/TG20180928.pdf
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Oct-21	Administration
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Without minutes any decisions made are not recorded and so have no legal basis. Any actions taken as a result of those decisions have no legal authority. There is no public access to decisions taken, preventing openness and challenge.	The matter was discussed at the meeting on 14 September 2021. Democratic Services have been experiencing resourcing issues and backlogs of all Council Committee meeting minutes have arisen. The team are now fully resourced and will be trying to catch up on the backlog and produce future minutes in a more timely fashion moving forward. Members requested that officers look into sourcing external minuting provision in respect of Pension Meetings to safeguard Fund business.
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Officers have designated the breach as amber in line with TPR guidance. Whilst there is an impact on the administration of the Fund, action has been taken to resolve the issue. The Monitoring Officer has advised that the matter should be reported to the TPR which has been done by the Chairs of the Board and Committee.



A Report prepared by democratic services on minutes was considered by the Pension Committee at their meeting on 3/12/2021. Members decided they wanted external provision for producing Fund minutes to be provided. Democratic services will put this in place. Democratic Services provided the minutes for the meeting of 14/9/2021 for the 3/12/2021 meeting.

Democratic Services to act on the decision of the Pension Committee on minute provision and providing any missing minutes	
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Sep-21	Finance	Failure of the Fund to publish the Fund Accounts for year 2019/20 by 30 September 2020.	Lack of accurate data available on which to base funding requirements. This could result in insufficient funds to pay all benefit liabilities.	A report on the Annual report and Fund Accounts 2019/20 is being considered by the Pensions Committee in their meeting on 3 December 2021 and they will be published on the website.	The matter has not been reported to the Pension Regulator. Progress has been delayed due to the issuing of the Section 114 notice applicable to Croydon and, more widely, to the impact of the Covid 19 pandemic. Many other LGPS Funds had been unable to finalise their accounts due to the impact of the pandemic. The failure to sign off the accounts does not relate to a failure on the part of the Fund to produce them but with delays in the audit process which is beyond the control of the Fund. The Annual Report and Accounts have now been published on the website.		N/A	Head of Pensions to continue to liaise with Audit on progress	
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Breaches Process

Type of Breach	Timescale for reporting	Internal actions
Urgent and Material	Responsible officer informs Head of Pensions and Treasury and the governance team, the breach is reported immediately to The Pensions Regulator	Governance team to keep record of the breach and investigate options to prevent further occurrence
Non urgent: Assess whether Material / Immaterial	Responsible officer informs Head of Pensions and Treasury and the governance team, the breach is considered and if deemed necessary it is reported to the Pensions Regulator within 30 days	Governance team to keep record of the breach and investigate options to prevent further occurrence
Immaterial	Responsible officer informs Head of Pensions and Treasury and the governance team within 30 days	Governance team to keep record of the breach and investigate options to prevent further occurrence

Further actions

Report urgent and material breaches to Section 151 officer, Chair and Vice Chair of Committee and Local Pension Board. Full report to be submitted at the next available meeting

Report breach at next Pension Committee and Pension Board meeting

Report immaterial breach at next Pension Committee and Pension Board meeting

Rating	Description	Breach occurred	Breach identified		Action taken	Decision		
	Cause, effect, reaction and wider implications considered together ARE LIKELY to be of material significance	Error has occurred	PLUS	Errors not recognised	PLUS	No action taken to rectify and tackle the cause	MUST Report to TPR	
	Cause, effect, reaction and wider implications considered together MAY be of material significance	Error has occurred	PLUS	Errors rectified	PLUS	Systemic causes not addressed so issue may arise again	MAY Report to TPR	Consider the evidence and make a decision.
	Cause, effect, reaction and wider implications considered together ARE NOT Likely to be of material significance	Error has occurred	PLUS	Errors rectified	PLUS	Systemic causes addressed to mitigate against issue arising again	DONT Report to TPR	

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REPORT TO:	Pension Board 13 January 2022
SUBJECT:	Pension Committee 3 December 2021
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury
1. RECOMMENDATION 1.1 The Board is asked to note the most significant matters arising from the meeting of the Pension Committee on 3 December 2021.	

2. EXECUTIVE SUMMARY

2.1 This report summarises the reports and the discussions thereon on the agenda considered at the meeting of the Pension Committee on 3 December 2021.

DETAIL

3.1 Paragraphs 3.2 – 3.12 below provide summaries of the reports and discussion of items on the agenda considered at the meeting of the Pension Committee on 3 December 2021

3.2 Minutes of the previous meeting

3.2.1 The Committee was asked to approve the minutes of the meeting of 14 September 2021 as a correct record. There were some amendments: all were accepted and will be included in the minutes as officially published.

3.3 Governance Review

3.3.1 This is the subject of a more detailed report elsewhere on this agenda.

3.4 London Borough of Croydon Pension Fund: Property Transfer Proposal

3.4.1 The Committee was “asked to recommend that the decision of Full Council of 28th January 2019, involving transfer of properties into the Pension Fund, be rescinded.” The report set out the arguments for rescinding the decision Officers and advisers argued that the decision was no longer appropriate since the Fund’s funding position had improved since the decision was made, it was not part of the agreed investment strategy, it created unnecessary complexity and risk and was “a sub-optimal response to the need to efficiently manage contributions.” Written comments supporting this advice from both the Investment Adviser and the Scheme Actuary were included in the report.

3.4.2 There was a lengthy debate with Members speaking both for and against the proposal. On the Chair’s recommendation it was agreed that the matter be reconsidered at the Committee’s next meeting on 15 March.

3.5 Pension Fund Governance: the Admission Policy, the Bulk Transfer Policy and the Policy for Employers Leaving the Fund

3.5.1 As recommended, the Committee agreed the three policies.

3.6 Pension Fund Annual Report 2019/20

3.6.1 Subject to a few minor drafting changes the Committee noted the Annual Report.

3.7 Pension Fund Annual Report 2020/21

3.7.1 Subject to a few minor drafting changes, and amendments to his Foreword that the Chair would be requesting, the Committee noted the Annual Report.

3.8 Review of Breaches Log

3.8.1 The Committee noted the report and, in particular, the three most recent breaches and recover actions:

- Failure to pay a refund to members who left the Fund under specific circumstances – 249 cases with average net refund value of £333.74;
- Failure to produce minutes of relevant meetings; and
- Failure to publish Fund Accounts for 2019/20 in line with Regulations.

3.9 Update of funding position as at 30 September 2021

3.9.1 Committee received advice from the Scheme Actuary that between the last formal triennial valuation as at 31 March 2019 and 30 September 2021 the past service funding position of the Fund had improved from a projected deficit of £165m (88% funded) to a forecast surplus of £102m (107% funded).

3.9.2 This improved position presents funding strategy options including:

- To reduce employer contributions – the Fund might consider using the stronger funding position to relieve contribution pressure on employers i.e. use the funding surplus to offset some of the future cost of benefits;
- Review investment strategy – consider reducing the risk in the investment strategy; and
- Build up a risk reserve – consider maintaining a risk reserve to mitigate any future adverse experience.

3.10 Progress Report for Quarter Ended 30 September 2021

3.10.1 In reports considered under Part A and Part B of the agenda the Committee were advised of the growth in the value of the Fund to £1,652m and of adjustments proposed in asset allocation to move towards a re-balance with the Investment Strategy Statement.

3.11 Minute Taking at Meetings of the Pension Committee and Pension Board

3.11.1 In reports considered under Part A and Part B of the agenda the Committee agreed that the possibility of securing alternative provision for minute taking of Committee and Board meetings be pursued.

3.12. Reduction in Council Employer Rate Contributions

3.12.1 The Committee agreed to reduce the Council employer rate contributions for the two years 2021/22 and 2022/23 to 23.2% from 25.7% and 25.2% respectively.

4 DATA PROTECTION IMPLICATIONS

4.1 Will the subject of the report involve the processing of 'personal data'?

No.

Approved by: Richard Ennis, Interim Corporate Director of Resources (Section 151) and Deputy Chief Executive

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Finance, Investment and Risk
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

None

APPENDIX:

None

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REPORT TO:	Pension Board 13 January 2022
SUBJECT:	Government Actuary's Department – Section 13 Analysis of LGPS 2019 Actuarial Valuation
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury

1. RECOMMENDATION

- 1.1 The Board is asked to note the findings of the review of the 2019 Actuarial Valuation carried out by the Government Actuary's Department.

2. EXECUTIVE SUMMARY

- 2.1 This report advises the Board of the publication of the Government Actuary's Department: "Local Government Pension Scheme England and Wales Section 13 Report as at 31 March 2019" and highlights the recommendations included therein.

3. DETAIL

- 3.1 Under Section 13 of the Public Service Pensions Act 2013 the Government Actuary's Department was commissioned by the, then, Ministry of Housing, Communities & Local Government to carry out a review of all LGPS 2019 local funding valuations.
- 3.2 Whilst, at that time, the final review had not been published, at its meeting on 14 October 2021 the Board received a report from the Fund's Actuary, Hymans Robertson, considering the draft results of the review, in particular focusing on the results as they applied to the Croydon Fund.
- 3.3 The Board noted the report including the findings of the Hymans Robertson Review.
- 3.4 On 16 December 2021 the Government Actuary's Department published its final report (dated November 2021). A link is attached as the Appendix to this report.
- 3.5 Part 1 of the Report comprises an executive summary. Whilst there are no references specifically to the Croydon Fund and no immediate actions required from the Fund, each of the recommendations copied below is likely, at some stage, to have relevance to the Croydon Pension Fund.

Recommendation 1:

The Scheme Advisory Board should consider the impact of inconsistency on the funds, participating employers and other stakeholders. It should specifically consider whether a consistent approach needs to be adopted for conversions to academies, and for assessing the impact of emerging issues including McCloud.

Recommendation 2:

We recommend the Scheme Advisory Board consider how all funds ensure that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.

Recommendation 3:

We recommend fund actuaries provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard.

Recommendation 4:

We recommend the Scheme Advisory Board review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around any such transfers to achieve long term cost efficiency.

- 3.6 Whilst no specific reference is made to the Croydon fund, in view of the relatively innovative nature of the current property transfer proposals, it appears that GAD may have had Croydon in mind when it made reference to asset transfer arrangements in paragraphs 7.45 - 7.48 and included a summary in para 1.28 prior to Recommendation 4 as follows:

Some councils have made or may be considering asset “gifts” to their pension funds. These arrangements are novel, may be complex and in some cases are established with a long time horizon. For these reasons, the governance around any such asset transfer arrangements requires careful consideration.

- 3.7 The Board is asked to note the findings of the review of the 2019 Actuarial Valuation carried out by the Government Actuary’s Department.

4 DATA PROTECTION IMPLICATIONS

- 4.1 Will the subject of the report involve the processing of ‘personal data’?

No.

Approved by: Richard Ennis, Interim Corporate Director of Resources (Section 151) and Deputy Chief Executive

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Finance, Investment and Risk
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

None

APPENDIX:

[Government Actuary's Department: Local Government Pension Scheme England and Wales Section 13 Report as at 31 March 2019](#)

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Government
Actuary's
Department

Local Government Pension Scheme England and Wales

Section 13 Report as at 31 March 2019

November 2021

Martin Clarke FIA and John Bayliss FIA



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At GAD, we seek to achieve a high standard in all our work. We are accredited under the Institute and Faculty of Actuaries' Quality Assurance Scheme. Our website describes **the standards** we apply.

1 Executive Summary

- 1.1 The Government Actuary has been appointed by the Department for Levelling Up, Housing and Communities (DLUHC) to report under section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the funds in the Local Government Pension Scheme in England and Wales (“LGPS” or “the Scheme”).
- 1.2 Section 13 requires the Government Actuary to report on whether the following aims are achieved:
- > Compliance
 - > Consistency
 - > Solvency
 - > Long term cost efficiency
- 1.3 This is the second formal section 13 report. Section 13 was applied for the first time to the fund valuations as at 31 March 2016. We refer to this as the 2016 section 13 report. The 2016 section 13 report was published in September 2018.
- 1.4 This report is based on the actuarial valuations of the funds, other data provided by the funds and their actuaries, and a significant engagement exercise with relevant funds. We are grateful to all stakeholders for

their assistance in preparing this report. We are committed to preparing a section 13 report that makes practical recommendations to advance the aims listed above. We will continue to work with stakeholders to advance these aims and expect that our approach to section 13 will continue to evolve to reflect ever changing circumstances and feedback received.

Progress since 2016

- 1.5 We made five recommendations as part of the 2016 section 13 report. In summary we recommended that:
1. Standard information should be provided in a uniform dashboard format to facilitate comparisons between funds.
 2. Consideration should be given to how greater clarity and consistency of actuarial assumptions could be achieved.
 3. A common basis for academy conversions should be sought.
 4. Within a named closed fund a plan should be put in place to ensure that benefits are funded in the event of insufficient contributions and exit payments.
 5. Recovery plans could be demonstrated to be consistent with CIPFA guidance.

- 1.6 We are pleased to note good progress in relation to recommendations 1, 4 and 5. However we note that further progress is needed in relation to recommendations 2 and 3.
- 1.7 We set out our comments on this progress in more detail in Chapter 3.

Overall Comments

- 1.8 In aggregate the funding position of the LGPS has improved since 31 March 2016; and the scheme appears to be in a strong financial position, specifically:
- > Total assets have grown in market value from £217 bn to £291 bn
 - > Total liabilities disclosed in the 2019 local valuation reports amounted to £296 bn. The local bases are required to be set using prudence
 - > The aggregate funding level on prudent local bases has improved from 85% to 98% (at 2019)
 - > The improved funding level is due in large part to strong asset returns over the 3 year period to 31 March 2019. Equities in particular performed strongly, averaging a return of circa 10-12% pa over the period. Funding also improved due to the continuation of substantial financial contributions from most LGPS employers

- > The aggregate funding level on GAD's best estimate basis is 109% (at 2019). GAD's best estimate basis is the set of assumptions derived by GAD without allowance for prudence. There is a 50:50 likelihood of the actual experience being better or worse than the best estimate assumption, in our opinion
- > We note that the size of funds has grown significantly over the three years to 31 March 2019. However, the ability of tax backed employers to increase contributions if this was to be required (as measured by their core spending power) has not kept pace. This could be a risk if, for example, there was to be a severe shock to return seeking asset classes

- 1.9 We set out below our findings on each of the four aims and our recommendations.

Compliance

- 1.10 Our review indicated that fund valuations were compliant with relevant regulations. However greater clarity on the assumptions used to determine contributions in the Rates and Adjustment certificate for some funds would be helpful.

Consistency

- 1.11 We interpret “not inconsistent” to mean that methodologies and assumptions used, in conjunction with adequate disclosure in the report, should facilitate comparison by a reader of the reports. Local circumstances may merit different assumptions. For example financial assumptions are affected by the current and future planned investment strategy, and different financial circumstances might lead to different levels of prudence being adopted.
- 1.12 Further to our recommendation as part of the 2016 section 13 report, we are pleased to note all funds have adopted a consistent “dashboard”. We consider this a useful resource to aid stakeholders’ understanding, because information is presented in a consistent way in the dashboards. We have suggested a few minor changes to further assist stakeholders going forward.
- 1.13 However, even given consistency in presentation in the dashboards, differences in the underlying methodology and assumptions mean that it is not possible to make a like for like comparison. We encourage further discussion on how assumptions are derived based on local circumstances in valuation reports.
- 1.14 We welcome the improvements of the evidential consistency of key assumptions, fund actuaries have provided more consistent rationalisation of assumptions in funding strategy statements.

However, we note there appear to remain some areas of inconsistency. Furthermore, there are particular inconsistencies in the way Academy conversions are carried out in different funds, which derive from different valuation approaches. We believe that there are substantial benefits to improving consistency which are discussed later in the report.

Recommendation 1:
The Scheme Advisory Board should consider the impact of inconsistency on the funds, participating employers and other stakeholders. It should specifically consider whether a consistent approach needs to be adopted for conversions to academies, and for assessing the impact of emerging issues including McCloud.

Solvency

- 1.15 As set out on the CIPFA website in [CIPFA's Funding Strategy Statement Guidance](#), the employer contribution rate is appropriate if:
- > the rate of employer contributions is set to target a funding level for the whole fund of 100% over an appropriate time period and using appropriate actuarial assumptions
- and either:
- > employers collectively have the financial capacity to increase employer contributions, should future circumstances require, in order to continue to target a funding level of 100%
- or
- > there is an appropriate plan in place should there be an expectation of a future reduction in the number of fund employers, or a material reduction in the capacity of fund employers to increase contributions as might be needed
- 1.16 Over the three years to 31 March 2019, funds' assets have grown by around a third and liabilities by around 15%. However, the size of the employers has not grown at the same pace. This increases the risk to funds if, for example, there was to be a sustained reduction in the value of return seeking assets. This represents a general increase in risk for the LGPS as

a whole, so we provide a general risk comment (rather than focus on any individual funds).

- 1.17 In GAD's view, the prevailing economic conditions have deteriorated between 2016 and 2019. Many funds have reduced their contribution rates as a result of the improvement of their funding position. In our opinion, for some funds, the deterioration in economic conditions may have warranted a strengthening of the valuation basis, resulting in a requirement to maintain or increase contributions.
- 1.18 We have performed an asset liability modelling (ALM) exercise for the scheme as a whole. This modelling illustrated:
- > potential for material variability around future employer contribution rates (the current investment strategy includes a high proportion of equity investments which contribute to this variability but has the upside potential of greater expected long term investment returns)
 - > the potential impact on funding levels if there were to be constraints on the level of employer contributions
- 1.19 The following risk comment highlights the ongoing risk that pension funding presents to local authorities. We are not suggesting administering authorities and their advisors are unaware of this risk, but we have illustrated possible implications in our ALM.

General risk comment

Local authorities have finite resources and in recent years the size of pension funds has increased considerably more than local authority budgets. Given that pension funding levels change it is not unlikely that a period of increased pension contributions may be required at some point in the future.

If additional spending is required for pension contributions this may lead to a strain on local authority budgets.

We would expect that administering authorities are aware of this risk in relation to solvency and would monitor it over time. Administering authorities may wish to discuss the potential volatility of future contributions with employers in relation to overall affordability.

Long term cost efficiency

Under solvency and long term cost efficiency we have designed a number of metrics and raised flags against these metrics to highlight areas where risk may be present, or further investigation is required, using a red/amber/green rating approach. Where we do not expect specific action other than a general review, we have introduced a white flag.

- 1.20 As set out in CIPFA's Funding Strategy Statement Guidance, we consider that the rate of employer contributions has been set at an appropriate level to ensure long term cost efficiency if it is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.
- 1.21 In 2019 we are flagging four funds as raising potential concern in relation to long term cost efficiency; this is two fewer than in 2016.
- 1.22 For two funds we are concerned that employer contributions are too low, as indicated by flags on a combination of GAD's deficit period, required return and return scope measures.
- 1.23 For a further two funds we are concerned that employer contribution rates are decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery is being extended further into the future (increasing the burden on future taxpayers).

provided, and the appendices include the information to be provided.

- 1.24 During our review, we engaged with a number of funds with concerns in relation to a combination of deficit period, required return and return scope measures. We are pleased to note that, following these discussions, we were able to take into account a post valuation asset transfer in respect of one fund and allow for a firm commitment to make additional contributions in respect of a further fund. As a result, we have not raised long term cost efficiency amber flags in respect of these two funds.
- 1.25 In the 2016 section 13 exercise, we noted that several funds were extending their deficit recovery end points and recommended that funds reviewed their funding strategy. Whilst we note the improved funding position has reduced or removed deficits for some funds, where a deficit remains, we are pleased to observe that most funds in 2019 have maintained their deficit recovery end points.
- 1.26 However, this does not appear to be the case for two funds which we have flagged on this measure.
- 1.27 We note that different approaches have been taken by different actuarial advisors to determine deficit recovery plans. Whilst we acknowledge that different approaches may be appropriate, it is important for stakeholders to be able to assess how the deficit recovery plan changes over time. We have therefore made a recommendation to extend the information

Recommendation 2:

We recommend the Scheme Advisory Board consider how all funds ensure that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.

Recommendation 3:

We recommend fund actuaries provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard.

- 1.28 Some councils have made or may be considering asset “gifts” to their pension funds. These arrangements are novel, may be complex and in some cases are established with a long time horizon. For these reasons, the governance around any such asset transfer arrangements requires careful consideration.

Recommendation 4:

We recommend the Scheme Advisory Board review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around any such transfers to achieve long term cost efficiency.

2 Introduction

What is Section 13?

The Government Actuary has been appointed by the Department for Levelling Up, Housing and Communities (DLUHC) to report under section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the 88 funds in the Local Government Pension Scheme in England and Wales (“LGPS” or “the scheme”).

This is the second formal section 13 report and sets out the Government Actuary’s findings following the fund valuations as at 31 March 2019.

Section 13 was applied for the first time to the fund valuations as at 31 March 2016, following a “dry run” which was undertaken as at 31 March 2013.

What are Local Government Pension Scheme valuations?

The LGPS is a funded scheme and periodic assessments are needed to ensure the fund has sufficient assets to meet its liabilities. Employer contribution rates may change depending on the results of valuations. Scheme regulations set out when valuations are to be carried out.

Each LGPS pension fund is required to appoint their own fund actuary, who carries out the fund's valuation. The fund actuary uses a number of assumptions to value the liabilities of the fund. Costs are split between those that relate to the past (the past service cost) and those that relate to the future (the future service cost). The results of the valuation may lead to changes in employer contribution rates for both future and past service costs.

- 2.1 This report is addressed to the Department for Levelling Up, Housing and Communities (DLUHC) as the responsible authority for the purposes of subsection (4) of section 13 of the Public Services Pensions Act 2013 (“the Act”). GAD has prepared this paper to set out the results of our review of the 2019 funding valuations of LGPS. This report will be of relevance to administering authorities and other employers, actuaries performing valuations for the funds within LGPS, the LGPS Scheme Advisory Board (SAB), HM Treasury (HMT) and the Chartered Institute of Public Finance & Accountancy (CIPFA) as well as other LGPS stakeholders.
- 2.2 As at 31 March 2019 there were 88 funds participating in the LGPS, excluding the West Midlands Integrated Transport Authority Pension Fund which merged with the West Midlands Pension Fund on 1 April 2019.
- 2.3 In addition to requirements under section 13 of the Public Service Pensions Act 2013 outlined above, the Scheme Advisory Board has established [Key Performance Indicators](#). These state that “the SAB considers that maintaining and improving the overall performance of the LGPS is best done by focusing on improving key financial and governance metrics of “under-performing” funds, and concurrently seeking to raise the level of performance of “average” funds to that of the “highest performing” funds.”
- 2.4 Subsection (4) of section 13 requires the Government Actuary as the person appointed by DLUHC to report on whether the four main aims are achieved, namely:
- > Compliance: whether the fund’s valuation is in accordance with the scheme regulations
 - > Consistency: whether the fund’s valuation has been carried out in a way which is not inconsistent with the other fund valuations within Local Government Pension Scheme England and Wales (LGPS)
 - > Solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund
 - > Long term cost efficiency: whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund
- 2.5 Section 13, subsection (6) states that if any of the aims of subsection (4) are not achieved
- a. the report may recommend remedial steps
 - b. the scheme manager must—

- i. take such remedial steps as the scheme manager considers appropriate, and
 - ii. publish details of those steps and the reasons for taking them
- c. the responsible authority may—
- i. require the scheme manager to report on progress in taking remedial steps
 - ii. direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.

Identifying if the aims of section 13 are met

2.6 We have looked at a range of metrics to identify exceptions under the solvency and long term cost efficiency objectives. Each fund is given a colour coded flag under each measure, where:

Key

RED indicates a material issue that may result in the aims of section 13 not being met. In such circumstances remedial action to ensure solvency and/or long term cost efficiency may be considered.

AMBER indicates a potential material issue that we would expect funds to be aware of. In isolation this would not usually contribute to a recommendation for remedial action in order to ensure solvency and/or long term cost efficiency.

WHITE is an advisory flag that highlights a general issue but one which does not require an action in isolation. It may have been an amber flag if we had broader concerns.

GREEN indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure solvency or long term cost efficiency.

- 2.7 The trigger points for these flags are based on a combination of absolute measures and measures relative to the bulk of the funds in scope at a point in time. Where appropriate we have maintained consistency with the approach adopted in 2016.
- 2.8 While they should not represent targets, these measures and flags help us determine whether a more detailed review is required. For example, we would

have a concern where multiple measures are triggered amber for a given fund.

- 2.9 It should be noted that these flags are intended to highlight areas where risk may be present, or further investigation is required. For example, where an amber flag remains following engagement, we believe this relates to an area where some risk remains that administering authorities and pension boards should be aware of. There is no implication that the administering authority was previously unaware of the risk.
- 2.10 A green or white flag does not necessarily indicate that no risk is present and similarly the fact that we are not specifically suggesting remedial action does not mean that scheme managers should not consider actions.
- 2.11 We have had regard to the particular circumstances of some funds, following engagement with the administering authority and the fund actuary. In some cases, the action taken or proposed has been sufficient to remove flags. We have described these outcomes in the relevant sections below.
- 2.12 The figures shown in the tables in this report are based on publicly available information and/or information provided to GAD.
- 2.13 Further detail is provided in the solvency and long term cost efficiency chapters and appendices. In addition we have considered the overall funding

position of the funds within the LGPS in our funding analysis report published alongside this document.

- 2.14 Local valuation outputs depend on both the administering authorities' Funding Strategy Statements and the actuary's work on the valuation. We have reported where valuation outcomes raised concerns in relation to the aims of section 13. It is not our role to express an opinion as to whether that conclusion was driven by the actions of authorities or their actuaries, or other stakeholders.
- 2.15 The following key has been used to identify the actuarial advisers for each fund:

Aon
Barnett Waddingham
Hymans Robertson
Mercer

- 2.16 The Environment Agency Closed Pension Fund is different from other LGPS funds. The benefits payable and costs of the fund are met by Grant-in-Aid funding by the Department for Environment, Food and Rural Affairs, thus guaranteeing the security of these benefits. Details of this can be found in the [Environment Agency Closed Pension Fund valuation](#) published on the LGPS SAB website. In general, the fund has been excluded from the analyses that follow.

2.17 More generally it is important to note that this report focuses on the funding of future member benefits. The calculation of members' benefits is set out in regulations. Consequently, the benefits paid to members are not dependent on the funding position of any particular fund.

Limitations

2.18 We recognise that the use of data and models has limitations. For instance, the data that we have from valuation submissions and publicly available financial information is likely to be less detailed than that available to funds. Our risk assessment framework enables us to broadly assess scheme risks and decide on our engagement with schemes on an indicative basis.

2.19 Because of the nature of this exercise, generally only post valuation experience allowed for in the valuation disclosures has been taken into account. However, where we have engaged with funds regarding their long term cost efficiency and a firm commitment has been made to improving the fund position, this has been recognised.

Standardised basis

2.20 There are some areas of inconsistency highlighted in Chapter 5, which make meaningful comparison of valuation results set out in local valuations reports difficult.

2.21 To address this, we have referred to results restated on two bases:

- > The standard basis established by the SAB, as calculated by fund actuaries
- > A best estimate basis consistent with market conditions as at 31 March 2019 derived and calculated by GAD

2.22 This use of standardisation does not imply the bases are suitable to be used for funding purposes as we would expect a funding basis to be consistent with the market and prudent. We note that:

- > The SAB standard basis is not consistent with current market conditions
- > The GAD best estimate basis is based on our views of likely future returns on each broad asset class across the Scheme. Regulations and CIPFA guidance call for prudence to be adopted when setting a funding basis. Our best estimate basis does not include prudence and is based on the average investment strategy for the overall Scheme, so will not be pertinent to any given fund's particular investment strategy. Further, we do not take into account any anticipated changes in investment strategy that may be planned/in train

2.23 The local valuations and our calculations underlying this report are based on specific assumptions about the future. Some of our solvency measures are stress

tests but these are not intended to indicate a worst case scenario.

Future review

2.24 We are grateful to stakeholders for their assistance in preparing this report. We are committed to preparing a section 13 report that makes practical recommendations to advance the aims in the legislation. We will continue to work with stakeholders to advance these aims and expect that our approach to section 13 will continue to evolve to reflect ever changing circumstances and feedback received.

Appendices

2.25 Appendices are contained in a separate document.

Other important information

2.26 The previous section 13 report was published on 27 September 2018 following the valuations as at 31 March 2016 details of which can be found in the [Local Government Pension Scheme: review of the actuarial valuations of funds as at 31 March 2016](#).

2.27 GAD has no liability to any person or third party other than DLUHC for any act or omission taken, either in whole or in part, on the basis of this report. No decisions should be taken on the basis of this report alone without having received proper advice. GAD is not responsible for any such decisions taken.

2.28 In performing this analysis, we are grateful for helpful discussions with and cooperation from:

- > Actuarial advisors
- > CIPFA
- > DLUHC
- > Fund administrators
- > HM Treasury
- > LGPS Scheme Advisory Board
- > The Pensions Regulator (TPR)

We note that this report is GAD's alone and the stakeholders above are not responsible for the content.

2.29 GAD would like to acknowledge the commitment shown by the funds and their advisors, which is illustrated through the improvement in the funding position of funds since the previous valuation.

2.30 We understand and assume that there is no regulatory authority assumed by or conferred on the Government Actuary in preparing this or any future section 13 report. The appointment to report under section 13 does not give the Government Actuary any statutory power to enforce actions on scheme managers (or others).

- 2.31 In preparing this report, we are aware that our analysis may be affected by risks arising from the impact of the COVID-19 pandemic. At this stage, the full impact of the COVID-19 pandemic is not known and will remain uncertain until further evidence has been established. No margins have been applied to the analysis to reflect these risks unless otherwise stated.
- 2.32 This work has been carried out in accordance with the applicable Technical Actuarial Standard: TAS 100 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

3 Progress

We made five recommendations in the 2016 section 13 report. We have reported on the progress made against each of these recommendations in the table below:

2016 Recommendation	Progress
<p>1: We recommend that the Scheme Advisory Board should consider how best to implement a standard way of presenting relevant disclosures in all valuation reports to better facilitate comparison, with a view to making a recommendation to the DLUHC minister in advance of the next valuation. We have included a draft dashboard in this report to facilitate the Scheme Advisory Board's consultation with stakeholders.</p>	<p>We are pleased to report that good progress has been made on this recommendation. The Scheme Advisory Board agreed standard disclosures which were included as an annex in each actuarial valuation report.</p>
<p>2: We recommend that the Scheme Advisory Board should consider what steps should be taken to achieve greater clarity and consistency in actuarial assumptions, except where differences are justified by material local variations, with a view to making a recommendation to the DLUHC minister in advance of the next valuation.</p>	<p>Some progress appears to have been made in this area. Fund actuaries have engaged with the Scheme Advisory Board and provided more consistent rationalisation of assumptions in funding strategy statements. However there remains some evidence of inconsistency.</p>

2016 Recommendation	Progress
<p>3: We recommend that the Scheme Advisory Board seeks a common basis for future conversions to academy status that treat future academies more consistently, with a view to making a recommendation to the DLUHC minister in advance of the next valuation.</p>	<p>The Scheme Advisory Board established a working group in 2018, including stakeholders with a range of perspectives, and discussed a variety of options for achieving a common basis for academy conversion. However, a common basis has not yet been implemented and further discussions are necessary to determine if a common basis is achievable and if so what that should consist of.</p>
<p>4: We recommend that the administering authority put a plan in place to ensure that the benefits of members in the West Midlands Integrated Transport Authority Pension Fund can continue to be paid in the event that employers' contributions, including any exit payments made, are insufficient to meet those liabilities.</p>	<p>We are pleased to report good progress regarding this recommendation. Following a public consultation, the West Midlands Integrated Transport Authority Pension Fund merged with the West Midlands Pension Fund with effect from 1 April 2019. The West Midlands fund merger consultation and the Government Response on the Proposed Merger of the West Midlands Integrated Transport Authority Pension Fund and West Midlands Pension Fund can be found at gov.uk</p>
<p>5: We recommend that all funds review their funding strategy to ensure that the handling of surplus or deficit is consistent with CIPFA guidance and that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.</p>	<p>We are pleased to report there has been progress on this recommendation with most funds now maintaining their deficit recovery end points. However, our analysis shows that further improvements could be made.</p>

4 Compliance

Key Compliance findings

- > All reports checked contained a statement of compliance
- > The reports checked contained confirmation of all material requirements of regulation 62
- > We concluded the aims of section 13 were achieved under the heading of Compliance in terms of valuation reporting

Under section 13(4)(c) of the Act, the Government Actuary must report on whether the actuarial valuations of the funds have been completed in accordance with the scheme regulations.

In this Chapter:

- > We set out our approach to reviewing compliance and our conclusions from that review

Summary of compliance outcomes

- 4.1 Valuation reports materially complied with the regulations.
- 4.2 There is a great deal of consistency between the actuarial methodologies and the presentation of the actuarial valuation reports for funds that are advised by the same firm of actuarial advisors (see Chapter 5 on Consistency). Accordingly, GAD has selected one fund as a representative example from each of the firms of actuarial advisors and has assessed whether these reports have been completed in accordance with Regulation 62. The statutory instrument governing the publication of actuarial valuations for the LGPS in England and Wales is Regulation 62 of the Local Government Pension Scheme Regulations 2013.
- 4.3 We found that the actuarial valuation reports have been completed in accordance with Regulation 62 and have therefore concluded that the compliance criteria of section 13 have been achieved. We note that this is not a legal opinion.
- 4.4 We did note that whilst the regulations require a reference to the assumptions on which the Rates and Adjustment Certificate (the certificate setting out employer contributions) was given, this was not always clear. It would be helpful to ensure such information is clearly stated in future. We did not consider this to be material non-compliance.
- 4.5 In line with the required actuarial standards we noted that the four valuation reports reviewed contained confirmation that the required Technical Actuarial Standards had been met.
- 4.6 Our review of compliance is focused on the actuarial valuation reports produced under Regulation 62. We have not, for example, systematically reviewed Funding Strategy Statements prepared under Regulation 58.
- 4.7 The comments we make in subsequent chapters on consistency, solvency and long term cost efficiency do not imply that we believe that the valuations are not compliant with the regulations. These comments relate only to whether the valuations appear to achieve the aims of section 13.

5 Consistency

Key Consistency findings

- > **Funds have adopted a consistent “dashboard” which greatly aids stakeholders’ understanding. We expect this information will be available as an informative resource for all users going forward and have recommended some changes to further assist users.**
- > **We welcome the observed move towards greater consistency in relation to key assumptions. We recognise that different advisors will recommend different assumptions. However, this makes comparability difficult. Stakeholders in the LGPS would benefit from greater comparability.**
- > **We recommend the SAB gathers further evidence on consistency from stakeholders and considers what further steps could be taken to advance this objective, particularly in relation to future academy conversions and wider emerging issues.**

Section 13 requires that GAD must report on whether each actuarial valuation has been carried out in a way which is not inconsistent with other valuations. This requires both presentational and evidential consistency and is important to enable readers to make comparisons between different valuation reports.

In this Chapter we:

- > Provide some background on the legislation and importance of consistency**
- > Discuss presentational consistency with a focus on contribution rates**
- > Consider evidential consistency in more detail, looking at liability values, funding assumptions, McCloud treatment and academy conversions**
- > Comment on emerging issues and academies**
- > Conclude and make recommendations**

Presentational Consistency:

Information may be presented in different ways in different reports, and sometimes information is contained in some reports but not others (eg discount rate derived to determine future contribution rates), so readers may have some difficulties in locating the information they wish to compare. We call this presentational inconsistency.

Evidential Consistency:

When the reader has located the relevant information (eg funding levels), differences in the underlying methodology and assumptions mean that it is not possible to make a like for like comparison. We call this evidential inconsistency. We believe that local circumstances may merit different assumptions (e.g. financial assumptions are affected by the current and future planned investment strategy, different financial circumstances leading to different levels of prudence adopted) but that wherever possible information should be presented in a way that facilitates comparisons.

Importance of Consistency

- 5.1 LGPS is a common pension scheme locally administered by separate Administering Authorities. Section 13 requires valuations to be carried out in a way that is not inconsistent with other LGPS fund valuations. This is important to enable readers to draw comparisons between the results from two valuation reports. We also believe that there are greater benefits that could be attained by adopting a more consistent funding approach.
- 5.2 Where members are provided with identical benefits it is hard to justify large variations in the apparent cost of these benefits. This is particularly pronounced where one employer is participating in numerous different LGPS funds and can be required to contribute differing costs. In this situation it is increasingly important to understand what is driving the difference and ensure that this is clear to employers. The greater the difference in cost between different funds, the more significant this issue.
- 5.3 Furthermore, given the mobility of the workforce it is not unusual for members to transfer between funds. The greater the variation in different funding basis the greater the potential strain. In addition, in relation to bulk transfers protracted discussions on the appropriate transfer basis can result, which are not helped by differences in funding bases.

- 5.4 We also note that there is a common basis used for various calculations within the LGPS. Where this basis diverges from funding basis this can be a source of additional strain, which needs to be managed.

Presentational Consistency

5.5 As previously we note a high degree of similarity between reports produced by each consultancy. Therefore, we have taken at random a report produced by each actuarial advisor to assess whether the information disclosed is consistent across all four advisors. We do not have any specific concerns about these funds, which have been chosen at random and note none of the funds raise any amber or red flags. These funds are:

London Borough of Enfield Pension Fund (Aon)	London Borough of Sutton Pension Fund (Barnett Waddingham)
Derbyshire Pension Fund (Hymans Robertson)	Lancashire County Pension Fund (Mercer)

5.6 All funds completed information in the format of a standard dashboard, which was recommended as part of the 2016 section 13 exercise. The final format of the dashboard was agreed by the SAB. This includes the key information that one might expect to find in an

actuarial valuation report and will be helpful to readers in comparing funding valuations.

5.7 Table B1 in Appendix B sets out the dashboard information required in the actuarial valuation reports for funds.

5.8 We note as previously each report contains a section that summarises the changes to the funding position since the 2016 reports, and these are presented in very similar ways, again making for easy comparison.

Contribution rates

5.9 Contribution rates include the following components:

- > Primary Contribution Rate
- > Secondary Contribution Rate
- > Member Contribution Rate

5.10 The analysis below focuses on the employer contributions (the primary and secondary contributions payable by the employer). Total employer contributions expected to be received in the three years covered by the 2019 valuation are set out in the following table:

Table 5.1: Total Recommended Employer Contributions

Contribution	2020-21 £bn	2021-22 £bn	2022-23 £bn
Primary contributions	6.5	6.7	6.9
Secondary contributions	1.3	1.2	1.1
Total Employer contributions	7.7	7.9	8.1

The trend in secondary contributions may reflect some fund employers paying their secondary contributions in one lump sum to cover three years. Whilst this may be expedient for employers in the short term, and we do not object, we do encourage a focus on the longer term, and in particular budgeting over the whole deficit recovery period.

The primary contribution rates are easily found in the valuation reports for each fund, and, as they are all expressed as a percentage of pay, are easily comparable. The same is true of member contribution rates.

Secondary contribution rates are more complex. All actuarial advisors provide a detailed breakdown of the secondary contribution rates by employer for each of the next three years in their Rates and Adjustments Certificates.

Secondary Contribution Rates

5.11 Table 5.2 summarises the information about secondary contribution rates that is given in the valuation reports for the different actuarial advisors. We note that these are provided as cash amounts in each year in line with CIPFA guidance. In addition, three of the four reports also provide an alternative expression of the contributions.

Aon expressed the secondary contribution as both a fixed monetary amount and as a combination of monetary amount and a percentage of pay.

Barnett Waddingham expressed the secondary contribution as both a monetary amount and a percentage of pay.

Hymans Robertson expressed the secondary contribution as a monetary amount only

Table 5.2: Secondary Contribution Rates

Fund (Actuarial Advisor)	Secondary Contribution Rates		
	2020	2021	2022
London Borough of Enfield Pension Fund (Aon)	£2,099,000 or 1.3% of pensionable pay plus £8,100	£2,175,000 or 1.3% of pensionable pay plus £8,400	£2,253,000 or 1.3% of pensionable pay plus £8,700
London Borough of Sutton Pension Fund (Barnett Waddingham)	4.5% of pensionable pay or £4,879,000	4.5% of pensionable pay or £5,058,000	4.5% of pensionable pay or £5,242,000
Derbyshire Pension Fund (Hymans Robertson)	£17,432,000	£17,752,000	£18,079,000
Lancashire County Pension Fund (Mercer)	£3,200,000 or £9,300,000 less 0.6% of pensionable pay	£3,300,000 or £9,700,000 less 0.6% of pensionable pay	£3,400,000 or £10,000,000 less 0.6% of pensionable pay

Mercer expressed the secondary contribution as both a fixed monetary amount and a combination of a monetary amount and a (negative) percentage of pay.

5.12 All fund actuaries gave the equivalent monetary amount. In many cases, this is consistent with how they frame the advice to their clients. Only one fund actuary gave a single headline figure that summarises the average secondary contribution rate over the three post valuation years. In our view this is a helpful way to express those contributions, as it gives the reader a clear sense of the total employer contributions being paid in.

5.13 We note that whilst comparison of secondary contributions over the next three years is relatively easy, it is harder to understand what funds' objectives are to making good the deficit over the longer term. We recommend reviewing the information set out in the dashboard to consider if further data could be easily provided to address this issue. This is discussed further in the Chapter 7 on long term cost efficiency.

Table 5.3: Information provided on spreading surplus/deficit:

Fund	Information provided on spreading deficits
London Borough of Enfield Pension Fund (Aon)	Statement setting out spreading of deficit under 100% over maximum of 16 years and any surplus over 105% over 19 years
London Borough of Sutton Pension Fund (Barnett Waddingham)	Statement setting out spreading of deficit (maximum of 16 years)
Derbyshire Pension Fund (Hymans Robertson)	Provide recovery horizon set by employers instead of deficit recovery period. Detail provided in funding strategy statement.
Lancashire County Pension Fund (Mercer)	Statement setting out spreading of deficit and surplus including detail on funding level and maintenance of deficit recovery end point. Deficit recovery over average of 16 years

Comparison with prior valuation contribution rates

- 5.14 Regulations require contribution rates to be split into primary and secondary contribution rates for employers. This makes comparison with the previous valuation easier compared to earlier valuation cycles.
- 5.15 A comparison of aggregate employer rates is provided in some cases. In other cases, a comparison of primary rates only is provided, see table 5.4.
- 5.16 We consider it would be helpful for stakeholders to see a comparison and explanation of recommended primary and secondary contribution rates with those from the previous valuation. We also believe a comparison of the total level of contributions being paid into the fund is useful to enable the reader to make a comparison of the current and past contributions and to facilitate comparisons between funds. We suggest these additional items should be included in an updated dashboard (see Appendix B).

Table 5.4 Comparison with prior valuation contribution rates

Fund	Comparison provided
London Borough of Enfield Pension Fund (Aon)	Analysis of the change in primary contribution rates, and comparison of secondary rate and total rate (as a % of pay)
London Borough of Sutton Pension Fund (Barnett Waddingham)	Analysis of the change in primary contribution rates
Derbyshire Pension Fund (Hymans Robertson)	Comparison of primary rate (as % of pay) and secondary rate (as fixed monetary amounts)
Lancashire County Pension Fund (Mercer)	Breakdown of the primary employer contribution rate compared with the previous valuation

Evidential Consistency

- 5.17 We have considered whether the local fund valuations have been carried out in a way which is not inconsistent with each other. We have found that whilst inconsistencies in the methodologies and assumptions adopted remain, these are less pronounced than observed in 2016.
- 5.18 Primary contribution rates range between 14% and 22% in 2019. This range is a function of differences in age profile as well as different assumptions adopted. It is a slightly narrower range than that emerging following the 2016 valuations, which we take to imply an improvement in evidential consistency. The range of secondary contributions is wider reflecting different deficit/surplus levels of the individual funds.
- 5.19 The value assigned to liabilities in each actuarial valuation report has been calculated on assumptions set locally. Differing levels of prudence are to be expected and may be reflective of local variations in risk appetite, but care needs to be taken when comparing results.

Reported liabilities

- 5.20 Table 5.5 shows a comparison of the local basis liability values vs liability values calculated using the SAB basis. Whilst there are also other reasons for differences between bases, this does illustrate the variation in levels of prudence adopted in each of the four valuations chosen, and therefore the difficulty in drawing

conclusions based on liability values. See also charts B1 and B2 in Appendix B which compares local and SAB basis funding levels.

Table 5.5: Liability Values

Fund	Local Basis £m	SAB Standard Basis £m	Difference between Local and SAB Basis
London Borough of Enfield Pension Fund (Aon)	1,146	1,075	7%
London Borough of Sutton Pension Fund (Barnett Waddingham)	732	670	9%
Derbyshire Pension Fund (Hymans Robertson)	5,092	4,258	20%
Lancashire County Pension Fund (Mercer)	8,398	6,893	22%

- 5.21 The liability value on the local basis is higher than that calculated on the SAB standard basis for all funds in this sample. Across the four funds examined, the difference between the liabilities calculated on the two bases is between 7% and 22%. More widely across all funds the

range is between -1% and 36%. As noted in paragraph 2.22, the SAB standard basis is not useful for assessing liabilities for funding purposes. However, this analysis illustrates the range of difference in liability values, and it is not clear the extent to which these are local differences which makes valuation reports difficult to compare directly.

- 5.22 The analysis above focuses on four funds chosen at random. It should not therefore be extrapolated to all funds advised by a particular advisor.

discount rate (see Appendix B for more details). Note this applies to all assets, not just “return seeking” assets. The range of implied asset outperformance by actuarial advisor is set out in Chart 5.1 below.

Assumptions

- 5.23 We compared the following key assumptions that need to be made for the actuarial valuations for all funds to consider whether variations in those assumptions are justified in terms of local conditions.

Discount Rate

- 5.24 The discount rate is the most significant assumption in terms of impact on the valuation results. We have therefore focused on the derivation of this assumption in this section. It is expected that different advisors will have different views on expected future investment returns, from which discount rates are derived.
- 5.25 The discount rate is used to value past service liabilities. A way of measuring the level of prudence included is to consider the implied asset outperformance within the

Chart 5.1 Implied asset outperformance range

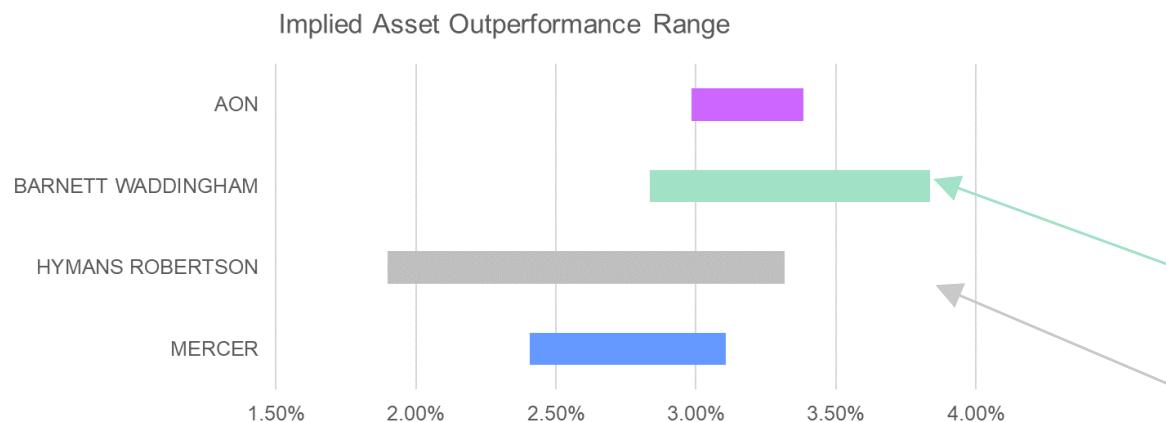


Chart 5.1 illustrates one aspect of the difference in assumptions applied by the four actuarial advisors (with the EA closed fund excluded)

Some funds advised by Barnett Waddingham have the highest level of outperformance within the discount rate used for assessing past service liability values.

Some funds advised by Hymans Robertson have the lowest level of asset outperformance within the discount rate.

- 5.26 Whilst there appears to be some link between the implied asset outperformance and the firm of advisors, the range of different assumptions is slightly narrower and overlap more than in 2016.
- 5.27 The implied asset outperformance in chart 5.1 relates to the discount rate for past service liabilities only. Whilst Aon and Barnett Waddingham adopt the same assumption for setting future contribution rates, Mercer and Hymans Robertson have different approaches.
- 5.28 Mercer's approach allows for the fact that contributions made after the valuation date will receive a future investment return that is not directly linked to market conditions at the valuation date. This resulted in a higher discount rate assumption for setting future contribution rates than used to value past service liabilities.
- 5.29 Hymans Robertson use stochastic techniques leading to a probability of success ("meeting the funding target by the funding time horizon") over a projection period (such as, for example, twenty years) to help set their contribution rates. GAD would encourage Hymans Robertson to disclose the effective discount rate used for setting future contributions, as required by CIPFA guidance in relation to Rates and Adjustment Certificates.
- 5.30 We would expect some fund by fund variation due to asset strategy and different levels of risk appetite, hence we do not consider the fact that funds adopt different discount rates to be a particular cause for concern.

Future asset returns are highly uncertain, and hence there is a wide range of reasonable assumptions that may be adopted.

- 5.31 To aid comparison, we propose that the discount rate used for contribution rate setting (which may be different to the rate used for assessing past service liabilities) be disclosed in the dashboard (see Appendix B).

Other assumptions

- 5.32 We have compared the following assumptions used by funds advised by different actuarial advisors:
- > Future mortality improvements
 - > Inflationary and economic salary increases
 - > Commutation assumptions
- 5.33 We expect assumptions to vary between funds. To aid transparency, this variation should be justified in relation to local circumstances. We are pleased to note improvements in some reports that reference local considerations in assumption setting. We encourage further progress in this area.

Emerging Issues

5.34 A number of issues affecting the LGPS are emerging. These issues require consideration from the funds and their advisors. We encourage dialogue with a view to treating these issues consistently in the 2022 valuation and beyond.

Climate risk

5.35 Two of the four funds reference climate change as a known risk within the valuation report as set out below. The other two funds may have considered this risk in ancillary advice but chose not to include within the valuation report.

5.36 DLUHC will be consulting on proposals for new requirements for assessing and reporting on climate risks in 2021 in line with the recommendations of the Taskforce on Climate-related Financial Risks (TCFD), and new regulations and guidance are expected to follow. Climate risk will be a focus in future section 13 reports. GAD will facilitate dialogue and engagement with DLUHC, actuarial advisors and the SAB prior to publication of the 2022 valuations to ensure a consistent approach is adopted.

Table 5.6 Reference to climate change within valuation report

Fund	Reference in valuation report
London Borough of Enfield Pension Fund (Aon)	Mentioned under other potential risks in valuation report
London Borough of Sutton Pension Fund (Barnett Waddingham)	Not mentioned in valuation report
Derbyshire Pension Fund (Hymans Robertson)	Mentioned under other risks and taken into account by administering authorities
Lancashire County Pension Fund (Mercer)	Not mentioned in valuation report

Allowance for COVID-19

5.37 As evidence emerges on the impact on mortality following the COVID-19 pandemic, we encourage dialogue to ensure a consistent approach is adopted in allowing for this.

Allowance for McCloud remedy

5.38 The government is committed to remedy age discrimination that arose when the LGPS was reformed in 2014. This is commonly referred to as McCloud

remedy. At the time of the 2019 valuations there was considerable uncertainty around the possible McCloud remedy and hence cost impact. The Scheme Advisory Board advised in May 2019 that when setting employer contributions rates from 2020 it was appropriate for funds to: “consider how they approach (and reflect in their Funding Strategy Statement) the risk and potential extra costs around this matter in the same way as they would for other financial, employer and demographic risks.” We note that all advisors have included an allowance for McCloud but the approach adopted varies. Table 5.7 show the treatment in each of the four funds chosen:

Table 5.7: McCloud treatment

Fund	McCloud treatment
London Borough of Enfield Pension Fund (Aon)	Converted calculated past service cost into a % of pay over the maximum recovery period plus a further addition to primary contribution rates
London Borough of Sutton Pension Fund (Barnett Waddingham)	McCloud allowed for in the derivation of the discount rate
Derbyshire Pension Fund (Hymans Robertson)	McCloud allowed for as additional prudence in setting employer contribution rates.
Lancashire County Pension Fund (Mercer)	Additional margin of prudence included in the discount rate to determine employer contribution rates.

- 5.39 There has been communication between actuarial advisors during the 2019 valuation when considering the allowance to be made for McCloud. Given that there is now greater certainty around the McCloud remedy we would expect a consistent and explicit calculation approach to be adopted at the next valuation.

Academies

- 5.40 A recommendation was made in the 2016 report that the Scheme Advisory Board should seek a common basis for future conversions to academy status, with a view to making a recommendation to the DLUHC Minister in advance of the next valuation.
- 5.41 Although the different treatments are not invalid, inconsistent treatment when academies are admitted can lead to differences in valuation outcomes. For this reason, it is an important element of section 13.
- 5.42 Whilst we are aware that initial discussions were held and an academies funding working group was established in early 2018, to consider amongst other things a common approach to assess the costs associated with academy conversion, a common basis has not yet been agreed and implemented.
- 5.43 We have limited data to consider the basis on which academy conversions have occurred. However, we have liaised with the actuarial advisors to request their input as summarised below:

Table 5.8: Advisors comments on whether a move to greater consistency has occurred

Actuarial advisor	Response to question “has there been a move to greater consistency for academy conversions?”
Aon	Aon confirmed that a move to greater consistency across all LGPS funds had not been observed, although improved funding levels may have resulted in more similarity in practice between different approaches. They also noted that consistency within a fund over time is important.
Barnett Waddingham	Barnett Waddingham confirmed that they have consistently adopted an active cover approach.
Hymans Robertson	Hyman Robertson commented “We are not aware of any significant change in approach by funds for the reason of ensuring consistent treatment of academy conversions with other funds. The approach used by each fund was, generally, formed in 2010/2011 when academy conversion first occurred. In the absence of any guidance from the Department of Education or DLUHC (DCLG at the time) about the pensions treatment of these new academies, the approach adopted by each fund was one that was in line with their approach to funding other employers in the fund and reflected what they thought fair to all stakeholders involved – the new academy, the

Actuarial advisor	Response to question “has there been a move to greater consistency for academy conversions?”
	<p>ceding LEA and all other employers in the Fund. By the time the 2016 Section 13 report was published in Autumn 2018, there had been 8 years of academy conversions and as such there was little desire by funds to revisit their approach. Especially as they may have created a two-tier academy funding regime in the fund, and it is unlikely that one funds approach will provide the best funding outcome for another fund.”</p>
Mercer	<p>Mercer confirmed that consistency applies to their Funds as they have generally applied the same principles i.e. that the contribution pre/post conversion is the same other than profile differences. Some Funds adopt variations on this but on a consistent basis. For Multiple Academy Trusts new academies will generally pay the pooled Multiple Academy Trust rate.</p>

5.44 It appears that despite work by both the SAB and the actuarial firms, limited progress has been made to move towards a more consistent funding approach for academies. It would seem appropriate for the SAB to review whether the advantages of convergence should reignite this debate with the aim of taking more definitive steps towards a future convergence.

Table 5.9: Advisors comments on whether a move to greater consistency is likely to occur

Actuarial advisor	Response to question do you anticipate a more or less consistent approach being adopted in the future
Aon	<p>Aon commented that a change in approach to make all funds more consistent would be difficult without a compelling reason such as legislation or SAB guidance. In respect of pooling of academies, they noted that there are arguments for pooling notwithstanding the inherent cross subsidies, but that academies aren't as homogenous a group as initially anticipated.</p>
Barnett Waddingham	<p>Barnett Waddingham commented that the same approach would be adopted for funds advised by Barnett Waddingham in future.</p>
Hymans Robertson	<p>Hyman Robertson commented: “As noted in the previous question [on whether there has been a move to greater consistency or not], academies have now participated in LGPS funds for over a decade and the approach used to allocate a starting funding position has likely been settled and consistent within each fund for a long period of time. Therefore, unless there was a significant change in the nature of academies as an employer, removal of the DfE guarantee or a particular approach mandated</p>

Actuarial advisor	Response to question do you anticipate a more or less consistent approach being adopted in the future
	via regulation (which would also need to consider how historic conversions are managed), we would not anticipate any future change in the approach around academy conversion.”
Mercer	Mercer commented that the consistency will remain the same until an approach is either mandated or further guidance is provided e.g. via the SAB

Recommendation 1:
The Scheme Advisory Board should consider the impact of inconsistency on the funds, participating employers and other stakeholders. It should specifically consider whether a consistent approach needs to be adopted for conversions to academies, and for assessing the impact of emerging issues including McCloud.

Conclusion

Improvements since 2016

We were pleased to note that generally there appeared to have been a move towards more consistent assumptions.

Previously we set out a possible dashboard to facilitate the Scheme Advisory Board's consultation with stakeholders and are pleased to note that all funds have included such a dashboard within their valuation reports. This has helped significantly in understanding the funds' approach. However, some items remain unclear and we think it would be helpful for stakeholders to be presented with clear information. We are working with the SAB to see how this can be achieved.

Objectives for improving consistency

We remain convinced of the advantages of achieving greater consistency. We therefore recommend engagement between the SAB and stakeholders to gain a better understanding of the issues and how steps towards greater consistency could be taken forward.

We encourage dialogue to aid consistency of approach between advisory firms, particularly for emerging issues of climate risk, COVID-19 and McCloud.

Examples of where the criterion may not have been achieved include:

- > Opportunities to improve consistency in reporting of whole of fund secondary contribution rates
- > Academy conversions

These differences contribute, alongside genuine local variations, to differences between funding levels and recommended contribution rates on local bases which a reader may find it difficult to interpret without undertaking further analysis.

6 Solvency

Key solvency findings

- > Funding levels have improved on local bases since 2016, primarily due to asset outperformance. This asset performance means that on average the funds of the LGPS are nearly 100% funded on their local funding bases.
- > Growth of funds' assets and liabilities has been faster than growth in the size of the underlying local authorities (as measured by Core Spending Power and Financing data). This means that those funds that are in deficit are more likely to trigger our asset shock measure. Where this is the only concern raised we have considered this a white flag and we have focused on the greater risk that is implied by this across a range of funds in the LGPS, rather than engaging with specific funds affected.
- > No other solvency flags have been raised due to the improvements in funding position.
- > There is a general risk that funds are growing relative to the size of the local authority employers, so this volatility can have a more profound effect.

Under section 13(4)(c) of the Act, the Government Actuary must report on whether the rate of employer contributions to the pension fund is set at an appropriate level to ensure the solvency of the pension fund.

In this Chapter:

- > We provide a definition of solvency
- > We provide some background on solvency issues, and some of the measures and flags we have used in considering them

Definition of solvency

In line with the definition in [CIPFA's Funding Strategy Statement Guidance](#), which we adopt for the purposes of section 13, we consider that the rate of employer contributions has been set at an appropriate level, to ensure the solvency of the pension fund, if

- > the rate of employer contributions is set to target a funding level for the whole fund (assets divided by liabilities) of 100% over an appropriate time period and using appropriate actuarial assumptions and either:
 - > employers collectively have the financial capacity to increase employer contributions, and/or the fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%

or

- > there is an appropriate plan in place should there be, or there is expected in future to be, no or a limited number of fund employers and/or a material reduction in the capacity of fund employers to increase contributions as might be needed

Summary of solvency Outcomes

- 6.1 Following the 2019 valuations 62 funds (71%) were in surplus on our best estimate basis, with the aggregate best estimate funding level being 109%. This compares to the position in 2016, where around 60 funds were in surplus with an aggregate funding level of 106%. GAD's best estimate basis is the set of assumptions derived by GAD without allowance for prudence, hence with a 50:50 likelihood of the actual experience being higher or lower than the assumption being adopted, in our opinion. Where the funding level on such a basis is higher than 100% we expect there is a greater than 50% likelihood that existing assets would be sufficient to cover benefits in respect of accrued service when they fall due.
- 6.2 There is a range of funding levels on this basis from 76% to 145% (excluding the Environment Agency Closed fund, as benefits payable and costs of the fund are met by Grant-in-Aid funding by DEFRA). The solvency definition above means those funds that are relatively poorly funded are not considered insolvent, but they do need to be taking adequate action to resolve that deficit (which is the subject of long term cost efficiency).
- 6.3 Although funding levels have improved across the board, GAD's view is that the outlook for prevailing economic conditions has deteriorated as at 2019 compared to 2016. Many funds have reduced their contribution rates as a result of the improvement of their funding position. In our opinion, for some funds, the deterioration in outlook may have warranted a strengthening of valuation bases, resulting in a requirement to maintain or increase contributions.
- 6.4 The period from 2016-19 saw strong equity returns of around 10-12% per annum, leading to high Price/Earnings ratios. Hence GAD's view is that markets were highly valued at 31 March 2019, and so we might expect to see lower future returns. A fall in gilt and bond yields over a similar period supports GAD's view of downward pressure on expected returns.
- 6.5 Based on [Scheme funding analysis annexure](#) produced by TPR the real discount rates of private pension schemes valued between September 2018 and September 2019 (i.e. including 31 March 2019) were around 1% lower than those used between September 2015 and September 2016 (i.e. including 31 March 2016). This coincides with a decrease in the return seeking assets held by schemes. TPR reporting indicates this is at least partly explained by the ongoing shift towards a lower proportion of return seeking assets in those schemes between 2016 and 2019. Whilst a reduction in the real discount rate was observed between 2016 and 2019 in the LGPS this was significantly smaller on average. The proportion of return seeking assets held by LGPS funds has not changed significantly over this period. Our Funding Analysis report contains further information.

SAB Funding Level

6.6 Five funds have a “white” flag in relation to their SAB funding level as these are the poorest funded on the SAB basis, with the distance from the mean SAB funding shown below:

Fund	SAB Funding Level Distance below mean
Bedfordshire Pension Fund (Barnett Waddingham)	19%
London Borough of Waltham Forest Pension Fund (Mercer)	21%
London Borough of Havering Pension Fund (Hymans Robertson)	22%
London Borough of Brent Pension Fund (Hymans Robertson)	27%
Royal County of Berkshire Pension Fund (Barnett Waddingham)	31%

6.7 We note that this is a purely relative measure and we did not engage with those funds that flag on this measure only. We would consider this a “white” flag. However, we encourage funds to review their long term budgeting process to allow appropriately for additional expected contributions to eliminate the deficit and to help to demonstrate solvency.

Asset Shock

6.8 This is a stress test. It considers what may happen if there is a sustained reduction in the value of return seeking assets of tax raising employers (those employers whose income is covered by core spending and financing data). For example, a market correction in which asset values do not immediately recover and losses are not absorbed by changes in assumptions.

6.9 We model the additional contributions that would be required by tax raising employers to meet the emerging deficit. This is different to considering the total contributions required following the shock – i.e. we are looking at where there is a risk of large changes to the contribution rate, rather than a risk of the total contribution rate exceeding some threshold.

6.10 Funds with a high level of return seeking assets are more exposed to asset shocks and more likely to trigger this flag.

6.11 More funds flag on the asset shock measure in 2019 than in 2016.

6.12 Funds have grown considerably, measured by the value of either their assets or liabilities, over the three years to 31 March 2019. The size of the employers, and particularly that of the relevant local authorities, as measured by their core spending power and financing data, has not grown at anything like the same pace. (Core spending power and financing data is used as a

measure of the financial resource of the underlying tax raising employers, as detailed in Appendix C).

- 6.13 We have considered this situation carefully and concluded that it would be difficult for funds to take specific action in response to individual fund flags which have been primarily driven by the increase in the size of funds relative to the possible contributions available. Therefore we are noting these concerns as a “white” for information only flag in Appendix C. This is an advisory flag that highlights a general concern but one which may require monitoring rather than action.
- 6.14 A key message is that this reflects the increased risk to the whole of the LGPS. If a shock were to occur, that shock would be more significant than before, since the fund has grown relative to the size of the local authority. Therefore, the ability of the employer to meet the increased contributions that could result will be diminished.
- 6.15 We have included a list of the funds with a white flag in Appendix C.
- 6.16 The potential for future variation in contribution rate is discussed further in our Asset Liability Modelling (ALM) section below. The ALM primarily focuses on potential variability of future employer contribution rates. We encourage actuarial advisors to provide commentary in relation to this risk in their valuation reports, both in general, and in relation to emerging risks such as climate change.

Asset Liability Modelling (ALM)

Introduction

- 6.17 An Asset Liability Model ('ALM') allows us to simultaneously project the assets and liabilities of the scheme under a range of simulations to investigate possible outcomes for key variables and metrics. Modelling the scheme in this way allows us to understand not only central, expected outcomes but also the wider range of possible outcomes and associated probabilities. It also demonstrates the importance of considering the assets and liabilities together to understand how particular risks and relationships might manifest in simultaneous movements in both sides of the balance sheet.
- 6.18 The ALM exercise was undertaken to illustrate:
- > Uncertainty of future employer contributions
 - > Impact on scheme funding levels if there are constraints on employers' and local authorities' pension contributions
 - > Scheme risks and possible risk management
- 6.19 The contribution and funding analyses in the ALM section are for illustrative purposes and are based on a set of assumptions and methodology set by GAD. It should be noted that this type of analysis is particularly dependent on the assumptions and methodology

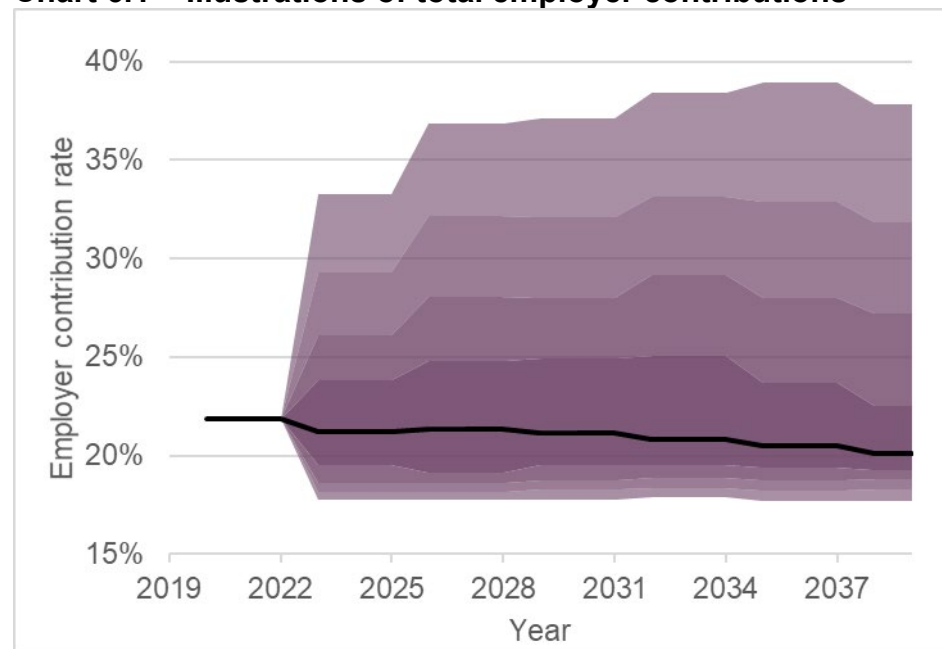
adopted. Other models could produce different outcomes.

- 6.20 The ALM charts in this report include an allowance for the reduction in the asset value following the onset of the COVID-19 pandemic in the 2019/20 scheme year but no allowance has been made for the rebound of assets that is expected to have occurred in the LGPS for 2020/21. GAD currently hold no information on the extent of recovery by funds, however we have included charts in Appendix E which illustrate the impact of setting the funding level to 100% at 2021 for all scenarios.
- 6.21 The methodology used for the ALM is set out in Appendix E.

Volatility of contributions

- 6.22 Variability of asset returns and changes in economic outlook may place significant pressures on the future rate of employer contributions.
- 6.23 Chart 6.1 Illustrates the range of total employer contributions (primary and secondary rates) projected over future valuations. This output is driven by the assumption that the impact of changes in asset values and/or the economic outlook will feed through directly to contribution setting.

Chart 6.1 – Illustrations of total employer contributions



6.24 In chart 6.1, the thick black line represents the median of the range of contribution rates simulated at each future valuation. Each shade of purple represents the range of funding levels for a decile (10%) of scenarios, with the subsequent lighter shade representing the next decile. We have not shown the most extreme deciles (0-10% and 90-100%)

6.25 Chart 6.1 illustrates that LGPS employers could be subject to significant pressures as there is around a 25% likelihood that the employer contributions could exceed 30% from 2031.

6.26 In our modelling, there is limited likelihood of significant reduction in contributions due to our assumptions that no reduction is applied when the LGPS is in surplus.

6.27 In practice these pressures may not follow through directly into changes in employer contribution rates. For example, if there was a downward (or upward) cost pressure then the following adjustments might be considered:

- > the asset strategy might be considered and refined (for example switching to something more defensive or return seeking) which would be expected to alter the future volatility and expected future return
- > the length of the recovery period might be considered and adjusted

- > the level of prudence might be considered and adjusted, which could alter the chance that future experience was better/worse than assumed

However, such short-term adjustments may not be indefinitely repeatable in practice.

6.28 The output of our model should not therefore be regarded as a prediction of changes in future employer contribution rates, but rather an illustration of the potential pressures on the employer contribution rate that might need to be managed in some way. Any changes to manage down employer contribution rates in the short term do not alter the long term cost of the scheme (which depends on the level of scheme benefits and scheme experience, including asset returns) and more generally might have some other less desirable outcomes, for example:

- > increasing the length of recovery periods transfers costs onto future generations of taxpayers
- > choosing a more return seeking asset strategy would be expected to increase volatility and risk

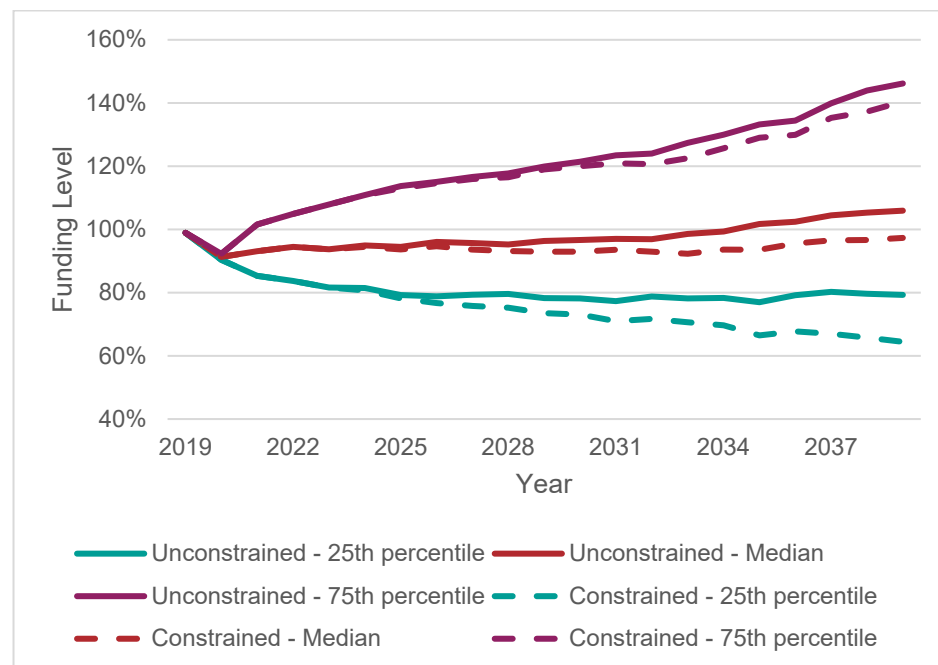
Funding of benefits at future valuations

6.29 The level of future funding available to local authorities is unknown. However if recent trends were to continue, there may be some constraints on the funding available to local authorities.

6.30 The funding strategies set by LGPS funds often seek to maintain stability of contributions, and the LGPS regulations require the actuary to have regard to the desirability of maintaining as nearly a constant primary rate of employer contributions as possible. The range of employer contribution rates that emerge at future valuations may be narrower than shown in chart 6.1 above because of this stability. Stability helps to avoid frequent upward and downward changes in employer contribution as a result of short-term volatility. However, there is significant variability in long term asset returns and adverse experience at a valuation might not be a short term 'blip', but the start of a long-term trend. If employer contributions do not change to reflect adverse experience in these circumstances, then there is a risk that funding levels fall in the medium-long term.

6.31 The two points raised above illustrate scenarios where employer contributions may be constrained and chart 6.2 illustrates the consequential impact that constraints on contributions could have on the projected funding levels.

Chart 6.2 – Illustration of the impact constrained contributions could have on funding levels



6.32 Chart 6.2 shows the median value (red) and the upper (purple, 75th) and lower (green, 25th) quartiles for the projected funding level. The thick lines represent unconstrained contributions and the broken lines are where employer contributions are constrained. Note that none of the lines shown on this chart represent any simulated scenario – instead they are intended to represent the distribution of possible outcomes and how the range of simulated scenarios changes over the projection period.

6.33 The constraint being applied is that average employer contribution rates do not exceed 22% of pensionable pay at any time (this is based on the average 2019 valuation contribution rate).

6.34 Chart 6.2 illustrates the downside risk that the LGPS may be subject to. There is just over a 25% chance of the funding level being below 65% by the end of the projection period, whereas for the unconstrained scenario there is a 25% likelihood of the funding level being below 80%.

6.35 This analysis is an illustration of how constraints on contribution rate may affect the LGPS, with similar points flagged in the discussion on asset shock – see paragraphs 6.8 – 6.16 and risk comment below.

Scheme risk

6.36 The ALM study is based on a projection of the fund in aggregate. In practice, the 88 funds each have their own individual circumstances and are starting from unique positions which alters the risk. To demonstrate this at a high level, we have considered sensitivity analysis which varies the initial funding level at the 2019 valuation as follows:

(a) Funding level is set to 75%, which is around the lowest funding level of the funds on GAD's best estimate basis at 2019

(b) Funding level is set to 100% at 2019

(c) Funding level is set to 145%, which is the highest funding level of the LGPS funds on GAD's best estimate basis at 2019

6.37 For these scenarios we have not allowed for a rebound of asset values in 2020/21 and have assumed contributions are constrained.

6.38 The table below illustrates the likelihood of achieving certain funding levels at 2037:

Table 6.1 – Illustrations of funding sensitivities

Scenario	Likelihood of being at most 75% funded at 2037	Likelihood of being at least 100% funded at 2037	Likelihood of being at least 145% funded at 2037
75% at 2019 valuation	50%	25%	10%
100% at 2019 valuation	30%	50%	20%
145% at 2019 valuation	10%	75%	50%

6.39 Table 6.1 illustrates the potential risks to well-funded funds, as continued well-funded status is not guaranteed. So even funds that are well-funded need to consider how best to manage downside risks.

- 6.40 Conversely a relatively poorly funded fund could recover, through a combination of employer contributions and strong investment returns.

General risk comment

Local authorities have finite resources and in recent years the size of pension funds has increased considerably more than their budgets. Given that pension funding levels change it is not unlikely that a period of increased pension contributions will be required in the future.

If additional spending is required for pension contributions this may lead to a strain on local authority budgets.

We would expect that administering authorities are aware of this risk in relation to solvency and would monitor this over time. Administering authorities may wish to discuss the potential volatility of future contributions with employers in relation to overall affordability.

Management of Risks

- 6.41 The ALM section above highlights some of the key risks that the LGPS may be exposed to over future valuations. It illustrates some of the risks which funds should consider when making investment decisions:
- > Investment risk, primarily equity returns
 - > Volatility of contributions
- 6.42 GAD does not comment on the investment strategy that LGPS funds should adopt or the types of investments which the LGPS funds should invest in. Nevertheless, when choosing an investment strategy we would expect funds to consider the ongoing cost of the benefits and their capacity to increase contributions if required.

7 Long term cost efficiency

Key long term cost efficiency findings

- > In 2019 we are flagging four funds in relation to long term cost efficiency. This is two fewer than in 2016
- > For two funds we are concerned that employer contributions are too low, as indicated by flags on a combination of GAD's deficit period, required return and return scope measures
- > For a further two funds we are concerned that employer contribution rates are decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery is being extended further into the future (increasing the burden on future taxpayers)
- > We recommend all funds review their funding strategy statements to ensure handling of surplus/deficit is fair to both current and future taxpayers
- > We are pleased to report an improvement in funds maintaining their deficit recovery plans; however, we are concerned about the lack of transparency of some funds around their deficit recovery period

- > **Some funds have entered into long term arrangements with their sponsoring councils to receive future assets in return for reducing deficit contributions that would otherwise be expected to be paid into the fund. These can be complex arrangements. Careful consideration is required to ensure they fully comply with all regulations and are consistent with long term cost efficiency. We suggest that the SAB examine such arrangements to check appropriate governance is in place to ensure long term cost efficiency**

Under section 13(4)(c) of the Act, the Government Actuary must report on whether the rate of employer contributions to the pension fund is set at an appropriate level to ensure the long term cost efficiency of the scheme, so far as relating to the pension fund.

In this Chapter:

- > **We provide a definition of long term cost efficiency**
- > **We provide some background on long term cost efficiency issues, and the measures and flags we have used in considering them**
- > **We set out flagged long term cost efficiency issues: deficit reconciliation and deficit recovery period**
- > **We set out specific concerns and recommendations in respect of two types of asset transfer arrangements**

Definition of long term cost efficiency

In line with the definition in [CIPFA's Funding Strategy Statement Guidance](#), which we adopt for the purposes of section 13, we consider that the rate of employer contributions has been set at an appropriate level to ensure long term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

Summary of long term cost efficiency outcomes

- 7.1 Long term cost efficiency (LTCE) relates to not deferring payments too far into the future so that they affect future generations of taxpayers disproportionately.
- 7.2 In total, four funds are flagged under LTCE in the 2019 review. This compares with six funds flagged in 2016.
- 7.3 For two funds we are concerned that employer contributions are too low, as indicated by flags on a combination of GAD's deficit period, required return and return scope measures. Where the deficit period is the implied deficit recovery period and the required return considers the investment return rates required to achieve full funding in 20 years' time (both calculated on GAD's best estimate basis). Return scope considers how the required investment return compares to the fund's expected best estimate future return assuming the current asset split (these are defined in Appendix D in more detail). In Table 7.1 below we set out these measures for:
- > Royal County of Berkshire Pension Fund
 - > City of London Corporation Pension Fund

Table 7.1 – Funds with amber flag on deficit period, required return and return scope measures with rankings out of 87 funds (excluding the Environment Agency closed fund)

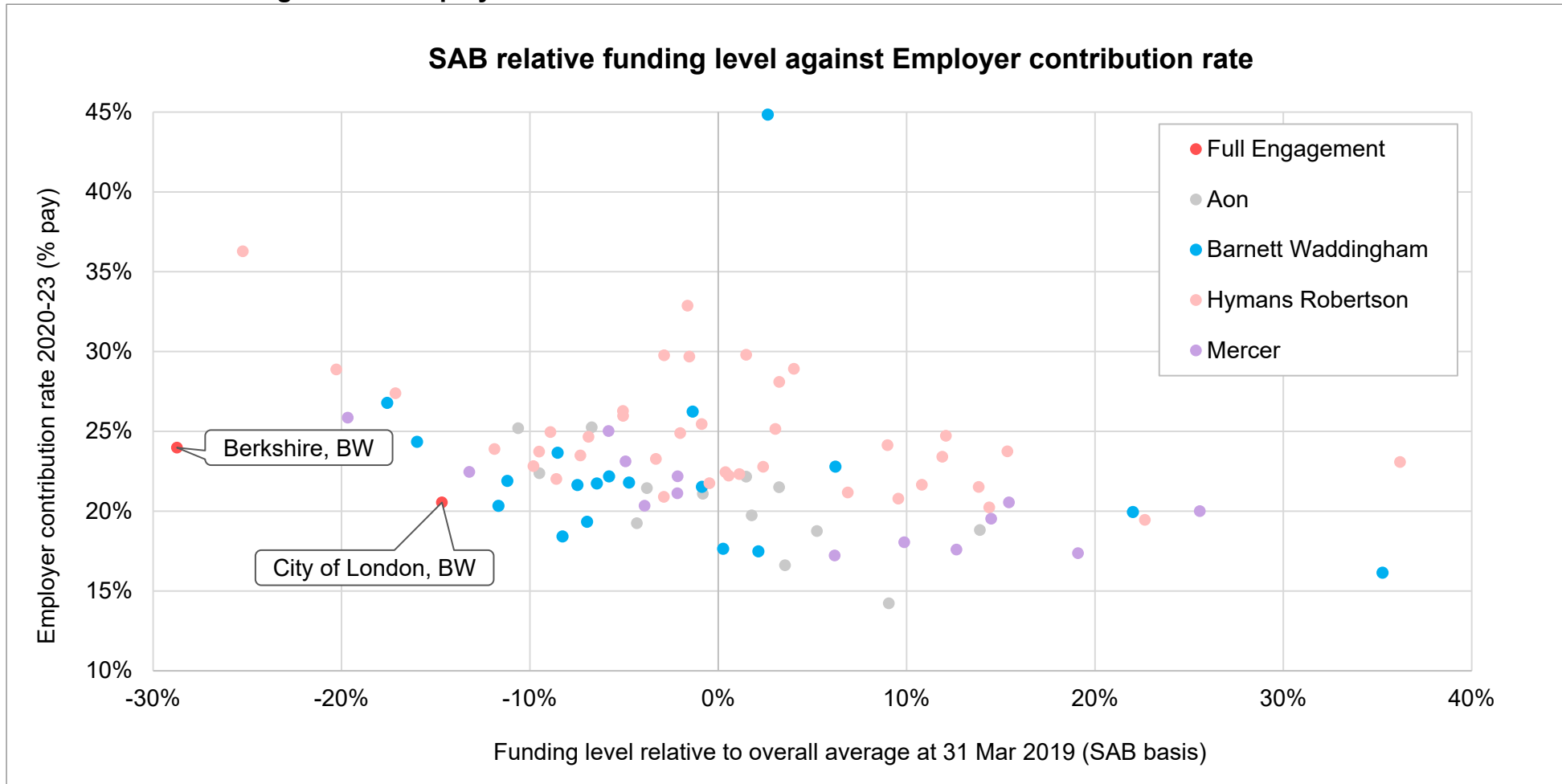
Pension fund	Deficit period (rank)	Required return (rank)	Return scope (rank)
City of London Corporation Pension Fund	15 years (86)	4.1% (84)	0.3% (76)
Royal County of Berkshire Pension Fund	25 years (87)	4.6% (87)	0.1% (84)

- 7.4 For a further two funds, Redbridge Pension Fund and Barking and Dagenham Pension Fund, we are concerned that employer contribution rates are decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery end point is being extended further into the future (increasing the burden on future taxpayers). This led to these two funds raising a flag in relation to their deficit recovery period.
- 7.5 We also engaged with Islington Council Pension Fund and Devon County Council Pension Fund. Prior to engagement, these funds raised initial amber flags and we were concerned that employer contributions were set too low. We were able to remove the amber flags following our engagement and their commitments to make additional contributions prior to 2023.

- 7.6 We engaged with a number of funds for which we did not raise a combination of flags. This was as a courtesy to explain that they were close to being flagged and may want to take action as part of the 2022 valuation to reduce the likelihood of being flagged then. These funds are listed in Appendix D as “light engagements”.
- 7.7 Some funds also raised flags against some LTCE measures, but on closer review most were not considered to be sufficiently wide outliers to warrant further investigation or engagement.
- 7.8 Chart 7.1 plots the funding level relative to the average (normalised to the SAB basis) against employer total contributions (expressed as a percentage of pensionable earnings). Those funds on the bottom left of the chart are therefore those receiving lower total employer contributions compared to other funds and which are relatively weakly funded on a standardised basis. The two funds discussed in 7.3 above appear furthest to the lower left and also flag on a number of relative LTCE measures. This combination of flags led us to raise further concerns and engage with those funds.

Deficit Period, Required Return and Return Scope

Chart 7.1 SAB funding level vs Employer contribution rate



Royal County of Berkshire Pension Fund

- 7.9 The Royal County of Berkshire Pension Fund is one of the least well funded on the local basis, with a funding level of 78%. It is the worst funded on the common SAB basis (excluding Environment Agency Closed fund). The funding level is higher, and therefore less prudent, than GAD's best estimate basis.
- 7.10 Proposed total contributions are 24.0% of pensionable pay (increased from 21.2% in 2016). This is partly an increase in primary rates (up 0.9% to 15.4%). However, under a worse economic outlook and relative to contributions being paid into other funds, we consider this to be lower than necessary to ensure long term cost efficiency.
- 7.11 The Royal County of Berkshire Pension Fund raised an amber flag in relation to some long term cost efficiency measures: deficit recovery period (25 years on GAD's best estimate basis), required return (where it ranks lowest at 87 of 87) and return scope.
- 7.12 Chart 7.1 shows that the Royal County of Berkshire Pension Fund is ranked lowest on funding level, and its contribution levels are not correspondingly high. Around 25 funds are receiving greater contributions.
- 7.13 The Royal County of Berkshire Pension Fund has retained its deficit recovery end point, although this was relatively long at 2040 in 2016.
- 7.14 Following engagement with the Royal County of Berkshire Pension Fund, we were advised that employers participating in The Royal County of Berkshire Pension Fund have been for the last few years increasing their contributions by 1% per year to reduce the deficit over the longer term. We were reassured by this long-term commitment.
- 7.15 The officers we engaged with appreciated that additional funding would be required over a long timeframe and reaffirmed their commitment to do so. They noted that there were strong constraints on affordability at this point in time.
- 7.16 They have also reviewed their governance processes, with recommendations currently being implemented and additional permanent staff being recruited to facilitate this.
- 7.17 They advised that in particular they are engaging with the Local Pension Partnership investment pool to tailor their strategic asset allocation specifically to the circumstances of the Royal County of Berkshire Pension Fund.

City of London Corporation Pension Fund

7.18 The City of London Corporation Pension Fund is funded at 90% on the local basis and just over 90% on SAB and best estimate bases. Overall the total employer contributions being paid into the fund have decreased since 2016 to 20.5% (down 0.2%); the primary rate has increased by 2.2% to 15.0% but secondary rates have fallen by 2.4% to 5.5%). We note that this is a feature of the mix of employers and that individual total employer's contributions have not generally decreased.

7.19 The City of London Corporation Pension Fund has retained its deficit recovery end point, at 2033. This has been the target since the 2013 valuation.

7.20 The City of London Corporation Pension Fund raises amber flags in relation to recovery period (15 years on GAD's best estimate basis) and return scope. It ranks 84 of 87 on required return (also an amber flag).

7.21 Chart 7.1 shows that the City of London Corporation Pension Fund ranks 8th lowest on funding level but this is not reflected in its contribution level. Around 61 funds are receiving greater contributions.

7.22 Following engagement with the City of London Corporation Pension Fund we were advised that employers have been adhering to their plan to remove the deficit by 2033. We were reassured by this long-term commitment.

7.23 The officers we engaged with referred to some reassignment of priorities and impacts on their funding as a result of COVID-19 but stressed that overall finances are robust and adequate to maintain this strategy.

Engagement with funds where flags subsequently removed

- 7.24 Islington Council Pension Fund is funded at 85% on the local basis and just over 90% on SAB and best estimate bases. On average across the three years, overall contributions have remained unchanged since 2016 at 20.0% of pensionable pay (primary rate has increased by 2.2% to 16.9% but average secondary rates have fallen by 2.2%, from 5.3% to 3.1%).
- 7.25 Islington Council Pension Fund has retained its deficit recovery end point, at 2038.
- 7.26 Prior to engagement, Islington Council Pension Fund would have raised an amber flag on deficit recovery period (17 years on GAD's best estimate basis) and return scope. It would have ranked 86 of 87 on required return (also an amber flag).
- 7.27 We engaged with relevant officers of Islington Council Pension Fund. They confirmed that they were committed to improving the funding level and there was already an agreement in place to a phased increase in contributions after the 2022 and 2025 valuations. Further there had been initial discussions on whether secondary contributions could be paid earlier. Following the engagement with GAD, Islington Council provided a firm commitment to paying in an additional contribution to the fund prior to 2023. If secondary contributions after 2023 are maintained this is sufficient to remove all amber flags for Islington Council Pension Fund.
- 7.28 We are pleased to confirm therefore that no amber flags apply to Islington Council Pension Fund in this report.
- 7.29 Devon County Council Pension Fund is funded at between 90% and 95% on local, SAB and best estimate bases. Overall contributions have decreased since 2016 to 20.3% of pensionable pay (down 0.6%). The primary rate has increased by 2.1% to 16.9% but secondary rates have fallen by 3.1% to 3.4%.
- 7.30 Devon County Council Pension Fund has retained its deficit recovery end point, although this was relatively long at 2040.
- 7.31 Based on the data provided, and prior to our engagement Devon County Council Pension Fund raised amber flags on deficit recovery period (19 years on GAD's best estimate basis) and return scope. It ranked 87 of 87 on required return (also an amber flag).
- 7.32 Following engagement with Devon County Council Pension Fund we established that an asset transfer had been made in October 2019. This increased in total fund assets by £72 million. As a post-valuation event this had not been considered in our initial calculations and was not reflected in the data received.
- 7.33 In our engagement meetings we agreed that it is appropriate to allow for this one-off increase in asset value and this was sufficient to remove the amber flags on deficit recovery period and return scope.

Deficit Reconciliation

- 7.34 Where a fund is in deficit administering authorities should avoid continually extending the deficit recovery period end point at each and subsequent actuarial valuations as this will not meet the LTCE requirements. Over time and given stable and better than expected market conditions, administering authorities should aim to, where possible and appropriate:
- > Maintain the levels of contributions and/or
 - > Reduce deficit recovery periods by maintaining the end point of the recovery period
- 7.35 We believe it is appropriate for funds to consider their plans for the duration of the deficit recovery period, so that future contributions are recognised and these form part of employers' budgeting process.
- 7.36 We would not normally expect to see employer contribution rates decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery end point is being extended further into the future (increasing the burden on future taxpayers). This expectation considers the desire for intergenerational fairness which is required for LTCE.
- 7.37 We appreciate there may be limited circumstances where new deficit may emerge between valuations, as a result of the fund's experience, where it may be appropriate to extend the recovery period. For example, if a fund within the last three years of its deficit recovery

period experienced a material reduction in its funding level, it may not be appropriate in the context of fairness between current and future generations of taxpayers to repay that new deficit within three years.

- 7.38 We consider that reconciliation of the deficit recovery plan is an essential component for all funds to demonstrate they meet LTCE requirements.
- 7.39 We note that most funds have now maintained their deficit recovery end points in accordance with our recommendation 5 from our 2016 section 13 report.
- 7.40 Hymans Robertson use stochastic techniques leading to a probability of success ("meeting the funding target by the funding time horizon") over a projection period (such as, for example, twenty years) to help set their contribution rates. This makes reconciliation as outlined in 7.38 difficult. It would be helpful if Hymans Robertson could also illustrate what the deficit recovery period would be based on for the proposed contribution pattern.
- 7.41 To ensure that we can compare future recovery plans; we propose that the following additional information is added to the dashboard for each fund (see Appendix B).
- > Three year average of total expected employer contributions, expressed as a percentage of pensionable pay

And, for funds in deficit only where deficit recovery period is defined:

- > Deficit end point at current valuation and prior valuation (weighted average for all employers in deficit)

Where a deficit recovery period is not defined:

- > success probability at the end point of the prior funding time horizon (current and prior valuation)

7.42 Where funds are in surplus, we are comfortable that there is more flexibility on whether to extend the end point over which surpluses are spread.

7.43 We engaged with two funds that were flagged on this measure:

- > Redbridge Pension Fund, which reduced contributions, had a success probability (i.e. the probability of being fully funded on the local valuation basis) at 2033 of 55%, compared with 64% in the 2016 projection. Redbridge Pension Fund therefore raises a flag for deficit reconciliation
- > Barking and Dagenham Pension Fund had a 67% probability of success at 2033. However, because it has moved to a different advisor, Hymans Robertson were not able to provide the success probability at the previous valuation or any other information for us to assess whether this meets LTCE requirements. Barking and Dagenham Pension Fund therefore raises a flag for deficit reconciliation

7.44 We note that both funds use a 17 rather than 20 year projection period, which itself is shorter (hence more prudent) than that used for a number of other funds.

Recommendation 2:

We recommend the Scheme Advisory Board considers how all funds ensure that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.

Recommendation 3:

We recommend fund actuaries provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard.

Asset transfer arrangements

7.45 A number of councils have or may be considering an asset “gift” to their pension funds. We are aware of two general types of arrangement as follows:

- > “Asset transfers” where council assets are transferred to an investment company, with the cash subsequently used to pay down part or all of the council’s pension fund deficit
- > “Contingent property transfer” where councils establish a special purpose vehicle in which a portfolio of social housing owned by the council is managed often for a long period of time (eg 40 years). The assets are not immediately transferred to the pension fund but at the end of the agreed management period, the property portfolio is gifted to the pension fund, on the expectation that the underlying properties will generate revenues and/or sales proceeds that will reduce or eliminate any deficit that remains in the pension fund at that time. In return, the council providing the gift receives an immediate reduction in deficit contributions, calculated as a present value of the expected future revenue from the portfolio of properties

7.46 Whilst we are not commenting on the actions of any fund that holds such an asset, potential concerns with these two types of arrangements could include:

- > Funds need to carefully consider compliance aspects of such arrangements, including:

- Compliance with local authority capital requirements, which specify that pension contributions should be met via revenue rather than capital accounts. At the point the gift is realised, this could be considered a capital asset transfer arrangement
- Compliance with restrictions on employer related investments in the Occupational Pension Schemes (Investment) Regulations 2005 (as amended)
- > The assets may not be the form of asset which best meets a pension fund’s long term objectives and hence we have concerns whether they will ultimately meet the LTCE objective
- > Due to complexity such asset transfer arrangements are likely to be associated with high set-up and management costs
- > They are potentially high risk asset classes which the pension fund will need to monitor - again increasing costs
- > As a minimum, we would expect the pension fund to need specific advice on the suitability of these assets
- > The governance around future pension funds’ decisions to accept such transfers should be carefully considered

- 7.47 The list above may not be exhaustive but is included to ensure that any council or fund considering entering into such an arrangement has considered relevant factors. We do not imply that funds that have already entered such an arrangement have not considered these aspects.
- 7.48 The asset transfer arrangements considered in this section do include those associated with bulk transfers of members between funds.

Recommendation 4:
We recommend the Scheme Advisory Board review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around any such transfers to ensure long term cost efficiency.

REPORT TO:	Pension Board 13 January 2022
SUBJECT:	Update on Progress of Governance Review
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury

1. RECOMMENDATION

- 1.1 The Board is asked to note the progress made in addressing the findings of the Governance Review.

2. EXECUTIVE SUMMARY

- 2.1 This document sets out the actions recommended by the latest report of the Governance Review and discusses how these will be achieved. The positive findings of the review are highlighted and the report illustrates how these recommendations serve to ensure there is clear separation between the Scheme Administrator and the Council, as an employer.

DETAIL

- 3.1 A governance review carried out by AON, the Fund's governance advisors, was commissioned by the Fund and its findings were reported in September 2019. It was envisaged that completion of the actions identified would be delivered over a 3-year period. A follow up review was carried out in June 2021. This report notes the success of the review and the positive reception from the Committee and from officers.
- 3.2 Members' attention is drawn to the significant positive actions already embedded in practices and progress made by officers in delivering the recommendations of the original review in 2019 and the latest review and should note that the pensions team are already actively working to address the remaining points covered by both reviews.
- 3.3 This latest review rated areas of practice considered as:
- positive – meets legal requirements, national guidance and good practice;
 - neutral – meets legal practice, in the main, but could be improved to meet good practice or national guidance;
 - negative – requires improvement as it does not appear to meet legal requirements or practices we consider key to good governance.
- 3.4 13 elements in the latest governance review were highlighted as positive. These included:

1. The latest Funding Strategy Statement was approved by the Committee in May 2021;
2. The Funding Strategy Statement has been updated to reflect the 2020 Amendment Regulations on exit credits and sets out the Administering Authority's policy on employer flexibilities;
3. The Investment Strategy Statement was updated in March 2020 in respect of the asset allocation strategy;
4. The Compliance Policy was approved by the Committee at their meeting on 17 September;
5. The Compliance Statement in Appendix B incorporates all the points from the 2008 guidance and was reviewed by the Pension Committee;
6. The Compliance statement was reviewed by the Pension Committee;
7. The latest version of the Communications Policy was approved by the Committee on 17 September 2019;
8. No improvements were required to the Administration Strategy when it was last considered in 2019. However, the Strategy is now currently under review and a revised version will be issued for consultation shortly;
9. The Risk Management Policy was reconsidered and approved at the 17 March 2020 Committee;
10. Following AON Hewitt's recommendation that a single Fund Knowledge and Skills/Training Policy was created, standardising the approach for all Fund stakeholders in accordance with the SAB and CIPFA requirements;
11. The new knowledge and skills policy was approved by Committee on 17 March 2020;
12. A business plan is in place; and
13. The governance structure was rated as good in the previous 2019 review so no action was needed.

- 3.5 The Pensions Committee of 3rd December 2021 agreed a number of actions. These are discussed below. Where appropriate these actions will be added to the existing Action Plan and Business Plan, included in the review of the Council's Constitution or considered in the light of services offered by the National LGPS Framework.
- 3.6 The first recommendation is to create a Head of the Pension Fund position, accountable directly to the Pension Committee and the S151 officer for all aspects of the Fund including governance, investment and pensions administration. This is in line with evolving good practice and is an approach adopted by a number of administering authorities. The staff restructure that followed the Report in the Public Interest created this post and the current post holder was moved into that role. This is a significant step to ensuring the separation between Pension Fund and Scheme Employer.
- 3.7 The second action is to appoint non-Council employer representatives to the Pension Committee. This requires an amendment to the Council's Constitution.
- 3.8 Next it was agreed to create an explicit policy on voting rights at the Committee. Again, as this is mentioned in the Council's Constitution an amendment to that document will be required.
- 3.9 The Committee also agreed that where services are provided by the Council, including the provision of payroll and meeting support services, to put in place service level agreements covering delivery times, volumes and price. This should

be a fairly straight forward matter and negotiations can begin when resources become available and this will be added to the Committee's Action Plan.

- 3.10 The Committee asked that a 3-year financial plan covering admin, fund management and other overhead costs be compiled. This features in the Business Plan that has already been adopted and which will be updated and monitored periodically.
- 3.11 The Committee further asked for the creation of bespoke procurement and recruitment policies for the Fund. This would serve the dual purposes of allowing the Fund to take advantage of the efficiencies available from accessing the National LGPS Framework and ensuring a clear separation between the Council and the Pension Fund. Furthermore the Council, as the administering authority should proactively consider the use of third party suppliers to increase the resources available to the Fund. The Council team has considerable experience of taking this approach in the past.
- 3.12 Next the governance arrangements should be changed so that the Fund Annual Report and Accounts be reported to the Pension Committee prior to being reported to the General Purposes and Audit Committee. The Democratic Services Team will advise on how this can be made to happen.
- 3.13 The Committee asked that all negative and neutral rated items in the latest AON report be included in an updated governance review action plan. The Pension Fund Governance team review this document periodically and so can action this recommendation in short order.
- 3.14 Finally there is a recommendation that a small annual allowance should be paid to Pension Board members to reflect the increasingly onerous skills and training requirements. This is supported by the Scheme Administer and will be submitted for consideration by the appropriate governance body.

4 DATA PROTECTION IMPLICATIONS

- 4.1 Will the subject of the report involve the processing of 'personal data'?

No.

Approved by: Richard Ennis, Interim Corporate Director of Resources (Section 151) and Deputy Chief Executive

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Finance, Investment and Risk
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS & APPENDICES:

None

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REPORT TO:	Local Pension Board 13 January 2022
SUBJECT:	Croydon Pensions Administration Team Key Performance Indicators for the Period 1 September 2021 to 30 November 2021 2021
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury
1. RECOMMENDATIONS	
	The Board is asked to:
1.1	Note the Key Performance Indicators and the performance against these indicators set out in Appendix A to this report.

2. EXECUTIVE SUMMARY

- 2.1 This report sets out Key Performance Indicators for the administration of the Local Government Pension Scheme (LGPS) for the three month period up to the end of November 2021.

3. DETAIL

- 3.1 Good governance suggests that the performance of the administration of the Local Government Pension Scheme should be monitored. This report has been developed using the guidance published by CIPFA (Administration in the LGPS: A Guide for Pensions Authorities) and is reporting to the committee on the LGPS administration performance for the period 1 September 2021 to 30 November 2021. The indicators cover legal deadlines; team performance targets, case levels and take up of member self-service and the indicators and performance against these are detailed more fully in Appendix A to this report.

Commentary

- 3.2 Priority is always given to the life events that most impact scheme members which are retirements and deaths. Performance against legal deadlines has been maintained in this area.
- 3.3 There has been a significant improvement in the processing of new starters. In November 99% new starters were processed within the legal deadline, compared with 48% in April. This has been achieved through allocation of a dedicated resource to work on this case type.
- 3.4 Hymans Robertson have been engaged to clear the outstanding tasks relate to a historical backlog of deferred benefit cases. As at 17 September Hymans have completed 256 cases with a further 178 having been calculated ready for quality checking.

3.5 We are currently running with 2 vacancies in the Pensions Administration Team that have arisen due to internal promotion and these are being actively recruited to.

4. DATA PROTECTION IMPLICATIONS

4.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?

NO

Approved by: Nigel Cook, on behalf of Richard Ennis, Interim Corporate Director of Resources (Section 151) and Deputy Chief Executive

CONTACT OFFICER:

Nigel Cook Head of Pensions and Treasury

BACKGROUND DOCUMENTS:

None

Appendices

Appendix A: Croydon Pensions Admin Team Performance Report, November 2021 (*Appendix to follow*)

REPORT TO:	Pension Board 13 January 2022
SUBJECT:	Local Government Pension Scheme Advisory Board / The Pensions Regulator Update
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury

1. RECOMMENDATION

- 1.1 The Board are asked to note the contents of this report.

2. EXECUTIVE SUMMARY

- 2.1 This report advises the Board of the matters currently being considered by the Local Government Pension Scheme Advisory Board and The Pensions Regulator which are relevant to the Fund.

3 DETAIL

3.1. Local Government Pension Scheme Advisory Board (SAB)

Section 13 Report

- 3.1.1 On 16 December 2021 the Department for Levelling Up, Housing and Communities published the Government Actuary's Department report on the 2019 fund valuations as required by Section 13 of the Public Service Pensions Act 2013. The report can be found via the link below:

<https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2019>

Cost Control

- 3.1.2 On 7 October 2021 HM Treasury published its Cost Control Directions. On their publication the Board became able to publish the results of their own cost management process which were agreed in the summer subject to confirmation of the Treasury's Directions. Details can be found via the link below:

[LGPS Scheme Advisory Board - Cost Management \(lgpsboard.org\)](https://lgpsboard.org)

Code of Transparency

- 3.1.3 Following a consultation with Code signatories proposed amendments to the LGPS Code of Transparency were agreed by the Board at its meeting on 27 September 2021. The updated Code wording can be found via the link below:

<https://lgpsboard.org/index.php/the-code>

Public Service Pensions and Judicial Offices Bill

- 3.1.4 On 7 September 2021 the Bill received its second reading and it is expected that Government amendments will provide more detail on the application of remedy in respect of unlawful discrimination to the LGPS.

The Pensions Regulator new code of practice

- 3.1.5 On 24 August 2021 the Pension Regulator published its interim response to the consultation on its new code of practice. The full response can be seen via the link below.

[Link](#)

- 3.1.6 On 4 June 2021 the Board submitted its response to The Pensions Regulator's consultation on a combined code of practice. The full response can be seen via the link below.

[Link](#)

Occupational Pensions Stewardship Council (OPSC)

- 3.1.7 On 8 July 2021 the DWP launched the Occupational Pensions Stewardship Council (the OPSC) which aims to develop a stronger overall voice for trustees especially in relation to service providers. It also aims to facilitate opportunities for schemes to collaborate on stewardship activities such as shareholder resolutions, climate change, corporate governance and other topics. The website, accessible via the link below, lists funds which are currently members and specifically invites interest from funds in the Local Government Pension Scheme.

[Link](#)

Special Severance Payments by local authorities

- 3.1.8 On 2 July 2021 MHCLG launched a six weeks' consultation period on statutory guidance in respect of special severance payments. Details are included via the links below.

[Link](#)

[Link](#)

Exit payment data

- 3.1.9 On 2 July 2021 MHCLG published a summary of exit payment data submitted by councils in respect of 2019/20 and 2020/21. The average payment, including pension strain, for 2020/21 across all local authorities was £26,000. Details can be accessed via the link below.

[Link](#)

The Pensions Regulator public sector survey

3.1.10 On 1 July 2021 The Pensions Regulator published its annual public service governance and administration survey. The primary objective of the survey is to track governance and administration practices among public service pension schemes. In addition, the 2020-21 survey included new questions on schemes' response to the COVID-19 pandemic, awareness and perceptions of the pensions dashboards, and the actions taken by Local Government schemes in relation to climate related risks and opportunities. The survey can be viewed via the link below.

[Link](#)

SAB Response to DWP call for evidence on consideration of social risks and opportunities by occupational pension schemes

3.1.11 On 25 June 2021, following consultation with the Board's Responsible Investment Advisory Group the SAB submitted its response. The call for evidence and the Board's response can be viewed via the links below.

[Link](#)

[Link](#)

Scheme Annual Report

3.1.12 On 18 May 2021 the Board Chair announced the publication of the Scheme Annual Report accessible on the website via the link below.

[Link](#)

Boycotts, Divestment and Sanctions Bill

3.1.13 On 11 May 2021, in the Queen's Speech, it was announced that a Bill would be introduced to prevent public bodies from taking a different approach to UK sanctions and foreign relations policies when making purchasing, procurement and investment decisions.

McCloud response

3.1.14 On 13 May 2021 a "Written Ministerial Statement" was published setting out the high level objectives of Government in applying the remedy as required following the McCloud judgement. On 11 May 2021, in the Queen's Speech, it was announced that a "Public Service Pensions and Judicial Offices Bill" will be introduced that will deal with the amendments necessary to incorporate the McCloud judgement into public service pension schemes including the LGPS. On 6 October 2020 the SAB published its final response to the MHCLG consultation.

3.2. The Pensions Regulator (TPR)

3.2.1 The Pensions Reulator has a wider remit than the SAB and most of its publications and press releases concern private sector schemes. However, in recent months it has published the following matters of interest to the LGPS:

Adapting Pensions to Climate Change

- 3.2.2 On 28 October 2021 TPR published its “Climate Adaptation Report” in which it argues that too few schemes give enough consideration to climate-related risks and opportunities, which means that investment and saver outcomes could suffer. It reports that a survey of defined benefit schemes showed that more than half had not allocated time or resources to assessing any financial risks and opportunities associated with climate change. The Report can be accessed at:

<https://www.thepensionsregulator.gov.uk/en/document-library/corporate-information/climate-change-and-environment/climate-adaptation-report>

Asset Allocation by Defined Benefits Schemes

- 3.2.3 On 21 October 2021 TPR confirmed that from 2023 it will ask “trustees” of defined benefits schemes for more information about how they allocated their assets.

New Code of Practice

- 3.2.4 On 24 August 2021 TPR published its interim response to the consultation on its new code of practice. Full details can be accessed via the link above, at paragraph 3.1.5. On 17 March 2021 TPR issued a consultation document on a proposed new code of practice, mainly dealing with the governance and administration of pension schemes, that will replace 10 of their existing codes. The “existing codes” include Code of Practice 14 which applies to the LGPS. The consultation period ended on 26 May 2021.

Public Sector Survey

- 3.2.5 On 2 July 2021 TPR published its annual public service governance and administration survey. The primary objective of the survey is to track governance and administration practices among public service pension schemes. In its press release TPR emphasise that defined benefit pension schemes are not as prepared as they should be for upcoming regulations on climate change. They point out that proposed regulations arising from the Pensions Schemes Act 2021 will require trustees to look at management and governance of climate-related risks and opportunities in more detail. From October 2022 trustees of schemes with over £1bn in assets will be required to comply with the regulations. Further details can be accessed via the link below.

<https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2021-press-releases/db-schemes-must-act-on-climate-change-preparations-survey-shows>

Annual Funding Statement 2021

- 3.2.6 On 26 May 2021 TPR published its “Annual Funding Statement 2021” in which it headlined that “Trustees of defined benefit pension schemes must remain alert to the risk of weakening employer covenants as uncertainties remain following a challenging year for businesses.”

4 DATA PROTECTION IMPLICATIONS

4.1 Will the subject of the report involve the processing of 'personal data'?

No.

Approved by: Richard Ennis, Interim Corporate Director of Resources (Section 151) and Deputy Chief Executive

CONTACT OFFICER:

Nigel Cook, Head of Pensions and Treasury,
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

None.

APPENDICES:

None.

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REPORT TO:	Pension Board 13 January 2022
SUBJECT:	On-line Learning Opportunities
LEAD OFFICER:	Nigel Cook Head of Pensions and Treasury
1. RECOMMENDATION	
1.1 The Board is asked to note the arrangements made for access to the Hymans Robertson LGPS Online Learning Academy.	

2. EXECUTIVE SUMMARY

2.1 This report updates the Board on the availability of online learning opportunities to allow Members to develop their skills in line with the Fund's Knowledge and Skills Policy.

3. DETAIL

3.1 At its meeting on 21 July 2021 the Board noted a report detailing the contents of a proposed training plan for the Board and Committee.

3.2 The report reminded the Board of the Knowledge and Skills Policy which was agreed by the Committee on 17 March 2020 (Minute 26/20) and of the knowledge required by relevant officers and Board and Committee Members.

3.3 On 21 July 2021 officers explained that they were investigating training opportunities offered by the Fund's Governance Adviser, Aon and its Actuary, Hymans Robertson. After investigation officers have entered into a contract with Hymans Robertson to allow access to their LGPS Online Learning Academy for all Members and officers involved with the Fund.

3.4 The learning is constructed around six modules as follows:

- An Introduction to the LGPS;
- LGPS Governance and Regulators;
- Administration and Fund Management;
- Funding and Actuarial Matters;
- Investments; and
- Current Issues.

3.5 The training can be accessed via <https://aspire.hymanslearning.co.uk/>
Users have been sent user names and passwords by Hymans via email.

4 DATA PROTECTION IMPLICATIONS

4.1 Will the subject of the report involve the processing of 'personal data'?

No.

Approved by: Richard Ennis, Interim Corporate Director of Resources (Section 151) and Deputy Chief Executive

CONTACT OFFICER:

Nigel Cook, Head of Pensions Investment and Treasury,
Finance, Investment and Risk
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

None

APPENDICES:

None