

Croydon Council

REPORT TO:	Local Pension Board 18 October 2018
AGENDA ITEM:	7
SUBJECT:	LGPS Governance Updates
LEAD OFFICER:	Nigel Cook, Head of Pensions and Treasury
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: The Pension Board assists with ensuring the effective administration of the Local Government Pension. This report highlights various issues that impact on that administration.	
FINANCIAL SUMMARY: There are no direct financial implications relating to this report.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1 RECOMMENDATIONS

- 1.1 The Board is asked to note the issues raised in this report.

2. EXECUTIVE SUMMARY

- 2.1 This report deals with various issues being considered by the LGPS Scheme Advisory Board, including reporting on the adequacy of the level of funding, the cost cap mechanism and the separation of Pension Funds from administering authorities.

3 DETAIL

- 3.1 The LGPS Scheme Advisory Board exists to guide the administration of the LGPS by considering various issues of interest to LGPS members. It publishes guidance, conducts surveys and undertakes detailed work that individual schemes cannot resource. It reports directly to the Secretary of State on these matters and consideration of the overall affordability of the Scheme. Below, three of the items on its current work-plan are discussed.

Report under Section 13 of the Public Service Pension Scheme into the 2016 Valuation

- 3.2 Since the sign off the 2016 valuations in March 2017 the Government Actuary's Department (GAD) have been carrying out their review of the 2016 local funding

valuations as required under Section 13 of the Public Services Pensions Act 2013 (commonly referred to as the “Section 13 valuation”). The purpose of the Section 13 valuation is to ensure local valuations are carried out such that they:

- Comply with the Regulations (“Compliance”)
- Are not inconsistent with one another (“Consistency”)
- Ensure solvency of the fund (“Solvency”)
- Are fair between generations (“Long term cost efficiency”)

3.3 GAD were appointed by the Ministry of Housing, Communities and Local Government (MHCLG) to carry out this work and they have taken an in-depth analytical and detailed approach. GAD have no experience of carrying out valuations of LGPS funds and setting funding plans, so they have therefore consulted with and relied on the four firms who provide actuarial advice to the LGPS to explain funding plans and fulfil their data requests. These four include Hymans Robertson, the Croydon Scheme Actuary.

3.4 The GAD report’s findings are largely positive with no concerns over compliance, noting a movement towards greater consistency across funds’ valuations, a general improvement in funding levels and with a recommendation that all funds review their funding strategy for compliance with the current guidance. This authority was flagged up because of the size of the gap from the mean recorded value for LGPS’s funding levels. However, GAD have confirmed that they are in the round satisfied with this level of funding and will not take any further action.

3.5 In summary GAD’s findings are that in aggregate the Local Government Pension Scheme is in a strong financial position and funds have made significant progress since the 2013 valuation based on their criteria. The final version of the report highlights:

- total assets for the Local Government Pension Scheme have grown from £180 billion to £217 billion;
- aggregate funding level has improved from 79% to 85%, due in part to better than expected returns on assets and strong returns have continued; and
- total employer contributions received were £6.9 billion per annum on average of which circa £2 billion per annum were deficit recovery payments.

Quadrennial Valuation of the Public Service Pension Schemes

3.6 In a Written Ministerial Statement on the 6th September 2018, the Chief Secretary to the Treasury, Elizabeth Truss, announced details of the quadrennial valuation of the public service pension schemes, including the Local Government Pension Scheme in England and Wales. The LGPS is established in a different way to the unfunded public sector schemes in that there is the scheme advisory board which operates a cost cap process. These four-yearly valuations have two key purposes:

- To measure the costs of the scheme against a target rate; the “employer cost cap”: This implements the cost cap mechanism which shares the risks of unexpected costs between members and taxpayers. However, note that the Scheme Advisory Board provides another step in this control process.
- To set the employer contribution rate: When combined with member contributions, contributions are expected to meet the full cost of pension

benefits being earned, including past service effects.

- 3.7 The employer cost cap is not directly comparable to the employer contribution rate. This is because the cost cap mechanism does not calculate the full cost of the scheme, as members do not share in all scheme risks. Various elements needed to capture the full cost of the scheme are excluded from the cost cap mechanism - for example, the cost cap mechanism is not affected by changes in actuarial methodology or changes to the discount rate used and does not measure costs associated with deferred or pensioner members of the pre-reformed schemes.
- 3.8 For the avoidance of doubt, the current triennial valuation to determine local employer contribution rates will continue on a three-year cycle but the GAD valuation, to determine the value for the cost cap, will operate on this four-year cycle.

Options for Separation of Host Authority and Pension Fund

- 3.9 Finally, the Board is kicking off an exercise to develop options for the separation of LGPS pension funds from their host authorities and to potentially make a recommendation to the Secretary of State. This is part of the Board's current work plan. This review is centred on the issue of conflicts in the LGPS. This is principally in relation to the management of potential conflicts so that the chances of an actual conflict and the difficulties that may ensue are reduced. Wrapped into any review of conflicts are the wider issues of administration and investment performance, best practice and cost reduction measures (for instance where greater separation leads to greater costs).

4 FINANCIAL CONSIDERATIONS

- 4.1 There are no further financial considerations flowing from this report.

5. OTHER CONSIDERATIONS

- 5.1 Other than the considerations referred to above, there are no customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report

CONTACT OFFICER:

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

BACKGROUND DOCUMENTS:

None