

Croydon Council

NOT FOR PUBLICATION: THE PUBLIC AND PRESS ARE LIKELY TO BE EXCLUDED FROM THE MEETING DURING CONSIDERATION OF THIS REPORT AS IT CONTAINS EXEMPT INFORMATION AS DEFINED IN PARAGRAPH NO. [INSERT] OF SCHEDULE 12A TO THE LOCAL GOVERNMENT ACT 1972 (AS AMENDED).

REPORT TO:	PENSION COMMITTEE 11 February 2020
SUBJECT:	Update on Triennial Actuarial Valuation
LEAD OFFICER:	Nigel Cook, Head of Pensions Investment and Treasury
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Resources
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: the Pensions Committee is responsible to other Scheme Employers for the sound management of the Local Government Pension Scheme.	
FINANCIAL SUMMARY: The Funding Strategy determines the underlying principles for the triennial valuation. The valuation determines the contribution rate for the Council and for all other Scheme employers.	

1 RECOMMENDATIONS
1.1 The Committee is asked to note the progress towards concluding the triennial actuarial valuation and the whole fund results.
1.2 The Committee is asked to approve the draft Funding Strategy Statement.

2 EXECUTIVE SUMMARY

- 2.1 This report presents an update from the Croydon Local Government Pension Scheme's Actuary on the current triennial valuation. The report considers the Whole Fund results. The report also presents a draft Funding Strategy Statement.

3 DETAIL

- 3.1 Attached as Appendix A to this report is a valuation update paper drafted by Hymans Robertson for this meeting of the Committee. Appendix B, attached, is the draft 2019 Funding Strategy Statement. As in previous cycles, it is standard practice to submit this Statement to the Committee in draft form for its input and approval before it is circulated to all of the Scheme employers for consultation alongside their valuation results.

- 3.2 The approach adopted by the Actuary for this triennial valuation has been to determine the long-term funding target and assessing the likelihood of meeting that target using risk based modelling. The current funding level has been assessed by comparing the value of the Fund's assets against a value of benefits accrued. Underpinning these calculations are three key assumptions:

- That benefits will increase at a rate of 2.3% per annum;
- That overall salaries will increase by 2.3% per annum; and
- That the rate of CARE revaluations will also be 2.3% per annum.

- 3.3 Consistent with the approach adopted for recent valuations the Actuary has assessed the likelihood of achieving this funding goal through a stochastic modelling approach.

- 3.4 The Actuary has had to be fairly vague on the treatment of "McCloud" risks. The following areas which will be impacted by the McCloud until the remedy is known and the Court case finally settled:

- Employer contribution rates;
- Ongoing funding positions;
- Cessation valuations;
- New academy asset allocation;
- New contractor asset allocation;
- Other new employer asset allocation;
- Accounting reporting; and
- Bulk transfers

The Funding Strategy

- 3.5 The Funding Strategy statement (FSS) has been drafted by the Pension Fund's actuary. It is attached to this report as Appendix B.

- 3.6 Local Government Pension Scheme members' benefits are set out and guaranteed by the Scheme regulations. These current and future outflows from the Fund represent a liability to the Scheme. In the same way employees' tiered contributions are defined by regulation. A proportion of this liability will be met from the returns generated from the investment of the assets that comprise the Fund with the balance

coming from employer contributions. The Funding Strategy Statement addresses three critical issues:

- How those employer liabilities are measured;
- The pace at which these liabilities are funded; and
- How employers pay for their own liabilities.

3.7 It will be apparent that in addressing these issues, there will be conflict, because of the different characteristics of Scheme employers and because of the different goals of stakeholders. The Strategy directly addresses the conflicting aims of:

- Affordability for all employers;
- Transparency;
- Stability; and
- Prudence.

3.8 There is a statutory requirement to produce this statement.

3.9 The Strategy is aimed at four groups of stakeholders, each with distinct and often conflicting interests.

3.9.1 **Scheme members** will look for assurance that there is sufficient liquidity to meet the requirements to pay their benefits.

3.9.2 **Employers** will have an interest in ensuring that equality underpins the basis for the calculation of contributions and liabilities.

3.9.3 **Elected Members** need to balance the level of contributions against other demands for scarce resources.

3.9.4 Finally, **Council Tax payers** will be interested in cross-subsidising between different generations. The Council will consult directly with all Scheme employers by circulating a copy of the Strategy for comment. This report will also be considered by the Croydon Pension Board. Any responses to this exercise will be reported back to this Committee. Members are invited to suggest any methods to widen the scope of the consultation or to make the process more open. Once finalised the Strategy will be published on the Croydon Scheme website.

3.10 The Strategy provides an overview to the main principles behind the funding of the Scheme, covering the calculation of the contribution rate for the different categories of employer. To provide a more complete and rounded picture the Strategy discusses in detail the regulatory framework, key responsibilities, risk monitoring and an explanation of assumptions and technical terms.

3.11 Under LGPS Regulations, all funds have a statutory obligation to produce a FSS. The Draft FSS, appended to this report, has been prepared in collaboration with the Administering Authority and forms an integral part of the framework within which the Scheme Actuary carries out the triennial valuation to set employers' contributions and to provide recommendations on funding decisions. The FSS also outlines how the funding strategy fits in with the investment strategy. Once approved, a draft version of the FSS will be issued to all participating employers with any comments to be submitted within 30 calendar days. Following the end of the consultation

period, any comments received may lead to amendments to the document. The final version of the FSS should be approved by the Pensions Committee and published during March 2020. This is reflected in the Committee's Forward Plan.

4 CONSULTATION

- 4.1 Officers have fully consulted with the Pension Fund's advisers in preparing this report. Other scheme employers will be consulted on the approach set out in the FSS. Following this Committee's consideration of the draft the FSS will be circulated to all Scheme employers for their consideration and comments.

5 FINANCIAL CONSIDERATIONS

- 5.1 This report contributes to the process whereby the employer contribution rates are set and therefore has a direct impact of the Council's General Fund.

6 COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

- 6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that GDPR will be further considered and that other than this, there are no additional legal implications from this report.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of Sean Murphy Director of Law and Monitoring Officer.

7 FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

- 7.1 This report does not contain any information which will not be made publically available by being published on the Council's Pension Fund website.

CONTACT OFFICER:

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

APPENDICES TO THIS REPORT

Appendix A: 2019 Valuation: Whole Fund Results and Review of Funding Strategy, Hymans Robertson, November 2019 (Exempt)

Appendix B: London Borough of Croydon Pension Fund, Draft Funding Strategy Statement, Hymans Robertson, November 2019 (Exempt)

BACKGROUND DOCUMENTS:

None.