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| REPORT TO: | PENSION COMMITTEE 14 September 2021 |
| SUBJECT: | Government Actuary's Department – Section 13 Analysis of LGPS 2019 Actuarial Valuation |
| LEAD OFFICER: | Nigel Cook Head of Pensions and Treasury |
| CORPORATE PRIORITY/POLICY CONTEXT: | |
| Sound Financial Management: Reviewing and ensuring that the performance of the Council's Pension Fund investments is in line with their benchmark and within the assumptions made by the Actuary. | |
| FINANCIAL SUMMARY: | |
| This report considers the 2019 Actuarial Valuation of the Croydon Pension Fund. | |
| FORWARD PLAN KEY DECISION REFERENCE NO.: N/A | |

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| 1 RECOMMENDATIONS |
| 1.1 The Committee are asked to consider and note the contents of this report |

1 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to summarise and update the Pensions Committee on the initial results provided by the Government Actuary's Department (GAD) under section 13 of the Public Service Pensions Act 2013 ("Section 13"). The final report should be available in autumn.

2 DETAIL

- 2.1 Section 13 of the Public Service Pensions Act 2013 requires a review of LGPS Actuarial Valuations. The GAD has been commissioned by the Ministry for Housing, Communities and Local Government (MHCLG) to carry out a review of all LGPS 2019 local funding valuations. This analysis is primarily to help provide comparison of actuarial valuation results across the 88 funds in the LGPS in England and Wales.
- 2.2 This GAD analysis is very analytical and presents various metrics in a "like-for-like" fashion (i.e. with local funding assumptions removed), so that reasonable comparisons can be made between LGPS funds. Section 13 requires GAD to ascertain whether each local fund valuation has achieved the following aims:
- The valuation complies with the LGPS regulations;
 - The valuation has been carried out in a way which is not inconsistent with other local fund valuations;
 - The valuation has set employer rates that ensure the solvency and the long-

term cost efficiency of the Fund.

- 2.3 Hymans Robertson, the Scheme's Actuary submitted data and information regarding the 2019 valuation on the Fund's behalf to GAD in May 2020 and GAD have used this data to carry out their analysis. GAD's draft two-page initial results summary for the Fund can be found as an attachment to the Scheme Actuary's report in Appendix A.
- 2.4 The initial results for Croydon (this is a draft report) give the Fund a clean bill of health for every metric, with no 'red flags' being raised. In summary:
- Using the LGPS Scheme Advisory Board standard 'best estimate' assumptions adopted by GAD for the analysis, the Fund is better funded at 31 March 2019 (98%) than it was at 31 March 2016 (81%).
 - The funding position (on the same actuarial assumptions) relative to its peers has increased from 81st to 72nd (of the 88 English and Welsh Funds).
 - The investment return the Fund requires on its assets to achieve full funding in 20 years' time has reduced from 4.0% to 3.5% p.a. (i.e. all else being equal, the Fund is better placed to meet the benefits promised to members and is relying less on the return expected to be generated from its assets).
- 2.5 The initial draft results had an amber flag under "Deficit Recovery Plan". This flag is a result of GAD's analysis indicating that the overall average employer contribution rate to the Fund reduced at the 2019 valuation, whilst the "deficit recovery end point" has increased (i.e. while the longest time horizon or deficit recovery period used in the Fund reduced from 22 to 20 years, this end point still increased from 2038 to 2039). However, the Scheme Actuary raised concerns on this metric and GAD have subsequently removed this flag in the draft of the final report.
- 2.6 There are currently no actions for the Fund. GAD had recently circulated a draft final version of their report to the Fund Actuaries for comment and have asked that this is not shared with other LGPS stakeholders (including the funds themselves). GAD have indicated that the final report will be published in the autumn.

3 CONSULTATION

- 3.1 Officers have fully consulted with the Pension Fund's Scheme Actuary in preparing this report.

4 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 4.1 This report deals exclusively with the investment of the Council's Pension Fund and compares the return on investment of the Fund against the benchmark return.

Approved by: Nigel Cook, Head of Pensions and Treasury on behalf of Richard Ennis, Interim Director of Finance, Investment and Risk, S151 Officer

5 LEGAL CONSIDERATIONS

- 5.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that Section 13 of the Public Service Pensions Act 2013 provides for among other things, the following:
Scheme regulations must provide for the rate of employer contributions to be set at an appropriate level to ensure—
- (a) the solvency of the pension fund, and
 - (b) the long-term cost-efficiency of the scheme, so far as relating to the pension fund.
- 5.2 For that purpose, scheme regulations must require actuarial valuations of the pension fund and subsection (4) provides that where an actuarial valuation under subsection (3) of Section 13 has taken place, a person appointed by the responsible authority is to report on whether the following aims are achieved—
- (a) the valuation is in accordance with the scheme regulations;
 - (b) the valuation has been carried out in a way which is not inconsistent with other valuations under subsection (3);
 - (c) the rate of employer contributions is set as specified in subsection (2).
- 5.3 A report under subsection (4) of Section 13 must be published; and a copy must be sent to the scheme manager and (if different) the responsible authority.
- 5.4 If a report under subsection (4) states that, in the view of the person making the report, any of the aims in that subsection has not been 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.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Interim Director of Law and Governance and Deputy Monitoring Officer.

7. HUMAN RESOURCES IMPACT

- 7.1 There are no direct workforce implications arising from the recommendations within this report.

Approved by: Vicki Richardson, Head of HR & Finance Service Centre on behalf of the Director of Human Resources

8. EQUALITIES IMPACT

- 8.1 There are no equalities impacts arising from this report.

9. ENVIRONMENTAL IMPACT

9.1 There are no environmental impacts arising from this report.

10. CRIME AND DISORDER REDUCTION IMPACT

10.1 There are no crime and disorder impacts arising from this report.

11. DATA PROTECTION IMPLICATIONS

11.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**
NO

11.2 The Director of Human Resources comments that this report relates to matters relating to the administration of the LGPS and the Croydon Pension Fund.

Approved by: Vicki Richardson, Head of HR & Finance Service Centre on behalf of the Director of Human Resources

CONTACT OFFICER:

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BACKGROUND DOCUMENTS:

None

Appendices

Appendix A: *London Borough of Croydon Pension Fund: Section 13 - Analysis of LGPS 2019 Actuarial Valuations, Hymans Robertson.*