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| <b>REPORT TO:</b>  | <b>Pension Committee</b><br><b>3 December 2021</b>        |
| <b>SUBJECT:</b>  | <b>Update on funding position as at 30 September 2021</b> |
| <b>LEAD OFFICER:</b>   | <b>Nigel Cook - Head of Pensions and Treasury</b>         |
| <b>CORPORATE PRIORITY/POLICY CONTEXT:</b>  |   |
| Sound Financial Management: This report updates the Committee on the application of the Funding Strategy for the Pension Fund. |   |
| <b>FINANCIAL SUMMARY:</b>  |   |
| Financial risks relating to the Pension Fund are substantial and can impact on the General Fund of the Council.                |   |
| <b>FORWARD PLAN KEY DECISION REFERENCE NO.: N/A</b>  |   |

## **1. RECOMMENDATION**

- 1.1 The Committee is asked to note the funding update provided by the Scheme Actuary.

## **2. EXECUTIVE SUMMARY**

- 2.1 This report updates the Committee on the performance of the Pension Fund since the last actuarial valuation.

## **3 DETAIL**

- 3.1 A paper has been commissioned from the Scheme Actuary by the Council as Administering Authority of the London Borough of Croydon Pension Fund ("the Fund"). Its purpose is to provide the Fund with an update on the overall fund level funding position as at 30 September 2021, how it compares to the position at the last formal valuation of the Fund carried out as at 31 March 2019 and subsequent funding considerations. That paper is appended to this report as Appendix A.
- 3.2 The review has found that since the 2019 valuation, as at 30 September 2021:
- 3.2.1 The past service funding position has improved from a deficit of £165m (88% funded) to a surplus of £102m (107% funded). This funding position is based on the Fund targeting an annual future investment return which has a 75% likelihood of being achieved. The improvement has been largely driven by strong investment performance since 31 March 2019.

- 3.2.2 Expected future investment returns: Despite volatility in the markets since early 2020, the outlook for future investment returns remains similar to the 2019 formal valuation. At 30 September 2021, the Actuary estimates that the Fund's asset allocation has a 75% likelihood of achieving an annual return of at least 4.0% p.a. (at 31 March 2019, the equivalent return was also 4.0% p.a.).
- 3.2.3 Fully funded required rate: The future investment return required to be notionally fully funded has fallen from 4.8% p.a. to 3.5% p.a. The likelihood of the Fund's assets achieving this required level of return has increased from 66% to 81%. Therefore, the Fund is now more likely to achieve the future returns needed to pay members benefits as they fall due.
- 3.2.4 The impact on future contributions (indicative) relates to primary and secondary contributions:
- Secondary rate contributions: the improved past service funding position will have a positive impact on Secondary rate contributions, all else being equal.
  - Future service cost (Primary rate contributions): The cost of future benefit accrual has increased. Longer term future market conditions for valuing benefit costs are expected to be more challenging and are applying upward pressure to the future service cost (compared to March 2019).
- 3.3 The improved position presents funding strategy options, including:
- 3.3.1 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.
- 3.3.2 Review investment strategy – consider reducing the risk in the investment strategy.
- 3.3.3 Build up a risk reserve – consider maintaining a risk reserve to mitigate any future adverse experience.
- 3.4 The decision will depend on the Fund's views and priorities, and could be a mixture of some or all of the above three options.

## **4. CONSULTATION**

- 4.1 Officers have consulted with the Scheme Actuary

## **5. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS**

5.1 There are no financial considerations arising from this report.

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

## **6. LEGAL CONSIDERATIONS**

6.1 The Head of Litigation and Corporate Law comments on behalf of the interim Director of Law and Governance that there are no direct legal implications arising from the recommendations in this report. The Committee must, however be mindful of their fiduciary duty to obtain the best possible financial return on the investment of the Fund it administers within the investment strategy framework.

**Approved by:** Sandra Herbert, Head of Litigation and Corporate Law and Deputy Monitoring Officer 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:** Dean Shoesmith, Interim 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**

**Approved by:** Nigel Cook, Head of pensions and Treasury

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#### **CONTACT OFFICER:**

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#### **APPENDIX:**

Appendix A: Update on funding position as at 30 September 2021, Hymans  
Robertson, November 2021

#### **BACKGROUND DOCUMENTS:**

None.