Public Document Pack

Havering
LONDON BOROUGH

PENSIONS COMMITTEE AGENDA

7.00 pm	**Tuesday 15 March 2022**	**Town Hall – Council Chamber**

Members 7: Quorum 3

COUNCILLORS:

Conservative Group (3)	**Residents' Group (1)**	**Upminster & Cranham Residents' Group (1)**	**Labour Group (1)**
John Crowder (Chairman) Osman Dervish Jason Frost	Stephanie Nunn	Ron Ower	Keith Darvill

North Havering Residents' Group (1)

Martin Goode (Vice-Chair)

Trade Union Observers

(No Voting Rights) (2)

Andy Hampshire, GMB

Admitted/Scheduled Bodies Representative

(Voting Rights) (1)

For information about the meeting please contact:
Christine Elsasser 01708 433675
christine.elsasser@onesource.co.uk

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF

What matters are being discussed?

DPI

Does the business relate to or is it likely to affect a disclosable pecuniary interest. These will include the interests of a spouse or civil partner (and co-habitees):
- any employment, office, trade, profession or vocation that they carry on for profit or gain;
- any sponsorship that they receive including contributions to their expenses as a councillor; or the councillor's election expenses from a Trade Union;
- any land licence or tenancy they have in Havering
- any current contracts leases or tenancies between the Council and them;
- any current contracts leases or tenancies between the Council and any organisation with land in Havering in they are a partner, a paid Director, or have a relevant interest in its shares and securities;
- any organisation which has land or a place of business in Havering and in which they have a relevant interest in its shares or its securities.

YES → Declare Interest and Leave

NO ↓

PERSONAL INTEREST

Might a decision in relation to that business be reasonably be regarded as affecting (to a greater extent than the majority of other Council Tax payers, ratepayers or inhabitants of ward affected by the decision)
- Your well-being or financial position; or
- The well-being or financial position of:

o A member of your family or any person with whom you have a close association; or
- Any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors;
- Any person or body in whom such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000;

o Any body of which you are a member or in a position of general control or management and to which you are appointed or nominated by your Authority; or

o Any body exercising functions of a public nature, directed to charitable purposes or whose principal includes the influence of public opinion or policy (including any political party or trade union) of which you are a member or in a position of general control or management?

YES ↓ / **NO** → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

PECUNIARY INTEREST

You must disclose the existence and nature of your personal interests

↓

Would a member of the public, with knowledge of the relevant facts, reasonably regard your personal interest to be so significant that it is likely to prejudice your

NO → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

YES ↓

- Does the matter affect your financial position or the financial position of any person or body through whom you have a personal interest?
- Does the matter relate to an approval, consent, licence, permission or registration that affects you or any person or body with which you have a personal interest?
- Does the matter not fall within one of the exempt categories of decisions?

NO → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

YES ↓

Speak to Monitoring Officer in advance of the meeting to avoid allegations of corruption or bias

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) - receive

3 DISCLOSURE OF INTERESTS

Members are invited to disclose any interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 2)

To approve the minutes of the meeting held on 25 January 2022 and authorise the Chairman to sign them.

5 PENSIONS ADMINISTRATION BUDGET 2022/23 AND SERVICE LEVEL AGREEMENT REVIEW (Pages 3 - 8)

Report attached.

6 BUSINESS PLAN – PC ANNUAL REPORT 2021-22 (Pages 9 - 50)

Report and appendices attached.

7 PENSION FUND PERFORMANCE MONITORING QUARTER END DECEMBER 2021 (Pages 51 - 120)

Report and appendices attached.

8 PUBLIC SERVICE PENSIONS ACT 2013 - SECTION 13 REPORT (Pages 121 - 266)

Report and appendices attached.

Zena Smith
Democratic and Election Services Manager

MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Zoom
25 January 2022 (7.00 - 9.05 pm)

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman), Osman Dervish and Jason Frost
Residents' Group	Stephanie Nunn
North Havering Residents Group	Martin Goode
Upminster and Cranham Residents Group	Ron Ower

All decisions were taken with no votes against.

The Chairman reminded Members of the action to be taken in an emergency.

231 **APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS**

Apologies were received for the absence of Councillors Keith Darvill.

232 **DISCLOSURE OF INTERESTS**

There were no disclosures of interest.

233 **MINUTES OF THE MEETING**

The minutes fo the meeting held on 9th November 2021 were agreed as a correct record.

234 **VOTING & ENGAGEMENT**

The Committee were presented with a review of the Fund's investment managers' voting and engagement activities produced by Hymans.

Members noted that the review period was a 12-month period ending 20th June 2021. Members noted that 6 managers were not signatories of the 2020 UK Stewardship code and 2 managers applied but were unsuccessful. Members also noted that climate change was the main engagement theme across the 3 main fund managers with diversity being lower down on the list due to cultural differences causing difficulties.

The Committee agreed the recommendations.

235 EXCLUSION OF THE PUBLIC

The Committee agreed to exclude the Public from all relevant parts of the following item on the grounds of paragraph 3 of Schedule 12A to the Local Government Act 1972.

236 PENSION FUND PERFORMANCE QUARTER END SEPTEMBER 2021

The Committee were presented with the Pension Fund performance for the quarter end September 2021.

The Committee noted that the updated Investment Strategy Statement had been adopted in July 2020 and that the fund was now at a value of £920.31million which was an increase of £5.23million on the previous quarter. Members noted the asset value had increased by £5.39million and the internal cash balance was £19.123million. Members were pleased to see such a positive quarter following the main COVID-19 lockdowns.

The Committee also noted that the Council had invested 5% into the LCIV PEPPA (Passive Equity Progressive Paris Aligned) Fund, following agreement by the Committee in September 2021 and there had been 1 LCIV meeting in the quarter which discussed the net-zero start and a 5 year road map to pool 70% of assets by 2025 with Havering currently at 53% of assets pooled as at 31st March 2021..

The Committee agreed the recommendations.

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Chairman

Havering
LONDON BOROUGH

PENSIONS COMMITTEE

Subject Heading:	Pensions Administration Budget 2022/23 and Service Level Agreement Review
SLT Lead:	Dave McNamara Section 151 Officer
Report Author and contact details:	Caroline Guyon Pensions Projects and Contracts Manager 01708 432185 Caroline.guyon@havering.gov.uk
Policy context:	Local Government Pension Scheme Regulations 2013
Financial summary:	The proposed budget for 2022/23 is £0.519m to be met by the Pension Fund. This is an increase of £0.015m on the original budget set for 2021/22.

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[x]
Places making Havering	[x]
Opportunities making Havering	[x]
Connections making Havering	[x]

SUMMARY

The administration of the Havering Local Government Pension Scheme (LGPS) is provided via a shared service agreement with Lancashire County Council (LCC) who delegate the function to the Local Pensions Partnership Administration (LPPA).

This report details the LPPA's proposed budget for 2022/23 of £0.519m, an overall increase of 3% from 2021/22, for agreement by Committee.

LPPA are also proposing a change to the service level agreements (SLA) currently in place. This would be the first change to the SLA following the commencement of the shared service agreement in November 2017. The report provides details for noting by Committee.

RECOMMENDATIONS

The Committee are asked to:

- Approve the 2022/23 budget of £0.519m for the provision of the LPPA pensions administration service.

- Note the proposed changes to the current service level agreements.

REPORT DETAIL

1. Pensions administration budget 2022/23

1.1. In November 2017 the London Borough of Havering entered into a delegated agreement (Local Government Act 1972) with LCC, for its pension administration service. LCC's pension administration service is provided by LPPA.

1.2. In line with the Service Agreement, LPPA on behalf of LCC, will propose an annual budget for the following financial year, which will be presented by officers for agreement by the Pension Committee. If no agreement is provided then the budget will be increased in line with the Consumer Price Index (CPI).

1.3. LPPA on behalf of LCC, have proposed a budget of £0.519m for the 2022/23 financial year. This is based on membership data as at August 2021 of 19,646 Fund members and equates to £26.45 per member.

1.4. In 2021/22 the budget was £0.504m which means an overall cost increase of 3%, 2.52% per member.

1.5. When setting the budget, LPPA's key assumptions were:
- An inflationary uplift of 4%
- the 1.25% employer Health & Social Care levy effective which becomes payable from April 2022
- the cost of additional headcount recruited to provide operational resilience for the migration to the new pensions administration system software: Universal Pension Management System (UPM) provided by Civica)
- reduction in systems costs as LPPA transition away from the current pensions administration system provider and software (Heywood Altair)

1.6. At the end of each financial year LPPA will confirm any variance against the budget and the Fund will receive either an invoice or remittance for the balance. At the end of Q2 LPPA have advised of a forecasted overspend of approximately £5,000 against the 2021/22 budget, largely due to an increase in system costs during the period of migration to the new pensions administration software provider (Civica).

1.7. The proposed budget settlement of £0.519m, is LPPA's estimate for the financial year. Officers are provided with quarterly forecasted outturns.

2. Revision of current service level agreements

2.1. To aid business efficiency and reduce systems costs, LPPA have made the decision to change their pensions administration system software to UPM. Havering will migrate in the autumn of 2022 in phase 2 of LPPA's project.

2.2. To ensure the system can be used efficiently, it is necessary for LPPA to standardise their SLAs across all clients with effect from 1 April 2022.

2.3. The table below shows our current and proposed SLAs post migration:

Process	Current SLA (working days)	Revised SLA (working days)	Difference
New starters	3	10	+7
Transfers in	4	10	+6
Transfers out	5	10	+5
Estimates - individual	5	10	+5

Deferred benefits	4	15	+11
Deaths	10	5	-5
Retirements - immediate	5	5	0
Retirements – deferred	5	5	0
Refunds	4	5	+1
Estimates - employer	5	5	0
Correspondence	5	10	+5
Aggregation	30	30	0

2.4. The overall SLA target of 95% remains unchanged for Havering and will be standardised across all LPPA clients.

2.5. Despite SLA dates being extended, LPPA are confident that new working principles will ensure that an improved service will be provided to members and employers with shorter overall processing times

This is achieved by staging dates being built into the processes of the new system which require work to be carried out prior to a case reaching its SLA date whereas on the current system a case is not worked on until it reaches the SLA date – this is illustrated in the example below and should result in an overall shorter duration between the case being opened and closed

Example: retirement from active status

Process step	Current System	UPM System
Data received from employer, checked for accuracy and any query raised	Day 5 after receipt	Day 1/2 after receipt
Response to query received and options issued to member	Day 5 after receipt	Day 1/2 after receipt
Final calculation processed and payments of benefits arranged	Day 5 after receipt of member forms	Up to day 5 of receipt of member forms

The trigger for measuring a case against the SLA is the point the final piece of information is received to enable a case to be processed.

2.6. Once the migration is complete LPPA are committed to exploring how SLAs can evolve in the future to deliver the best service to their clients, our members and employers. – Officers will continue to monitor performance closely once the system becomes fully operational.

IMPLICATIONS AND RISKS

Financial implications and risks:

The cost of pension administration is recharged annually to the Fund, the contract costs from LCC are factored into the budget and any increase in contract costs, once agreed, the budget will be increased and the additional cost met within the Fund.

Legal implications and risks:

The Council has delegated its pension administration functions to LPPA by an agreement which provides for termination on either party giving 12 month's notice but is otherwise indefinite.

The provisions relating to price are as follows:
For the duration of this arrangement, in September of each year Lancashire will send to Havering a proposed budget for the next financial year including detail of any increases or efficiency savings from previous years. Havering will either agree or offer an amended budget proposal. In the absence of agreement by both Parties the budget will remain as per the previous year plus an inflationary uplift per CPI as at the September prior to the commencement of the budgetary year.

Once the proposed budget is agreed in principle, Havering will refer the proposed budget to its Pension committee or other appropriate body for approval. If approved the annual budget will be ring-fenced for Lancashire and transferred to Lancashire in twelve (12) equal monthly instalments. The actual budget spend will be monitored and reimbursed through a quarterly review process. At the end of each financial year any budgetary over or underspends will be adjusted accordingly.

As result LPPA can propose a budgetary uplift of any value. As they are set up for full cost recovery the difference in the budget and the actual spend will always be adjusted with the authority.

It is open to the Council to not agree the budget proposal in which case it will be increased by CPI.

Human Resources implications and risks:

There appear to be no HR implications or risks arising directly as a result of this report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
(ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
(iii) foster good relations between those who have protected characteristics and those who do not.

Note: ‘Protected characteristics’ are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants. We will ensure that disabled people with sensory impairments are able to access the strategy.

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 15 MARCH 2022

Subject Heading:	**2022/23-2024/25 BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2021/22**
SLT Lead:	**Dave McNamara** **Section 151 Officer**
Report Author and contact details:	**Debbie Ford** **Pension Fund Manager (Finance)** **01708432569** **Debbie.ford@onesource.co.uk**
Policy context:	**A Business plan demonstrates compliance against Myners' principles for effective decision making**.
Financial summary:	**Any associated costs met by the Pension Fund**

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report sets out the work undertaken by the Committee during 2021/22 and the plan of work for the forthcoming three years, attached as **Appendix A**. This will form the basis of a rolling Pension Fund Business Plan 2022/23 – 2024/25

This is the last year of the current Pensions Committee term of office due to the Local Borough Elections being held in May 2022, therefore the Committee's achievements

and will only cover the period 1st April 2021 to 31 December 2021 to meet Council reporting deadlines.
This report explains why a Business Plan is needed and what it should contain.

RECOMMENDATIONS

That the Committee:

1) Agree the updated three year rolling 2022/23-2024/25 Business Plan and report of the work of the Committee for the year 2021/22 to December 2021(Appendix A refers) for consideration by the full Council meeting.

2) Consider any additions to the work plan for the Committee for 2022/23 and beyond (Section 3 within this report refers),

3) Agree the intention to create additional resources with the appropriate agreement of the S151 officer as set out at para 1.6 below and the Financial Estimate section of the Business Plan.

REPORT DETAIL

1. Background

1.1 Included within Myners Principle 1: Effective Decision Making suggested best practice was to create a Business Plan and a Training Plan.

1.2 The new Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 has removed the requirement to publish compliance against the six Myners principles but the Committee agreed to still publish and explain compliance against these principles. This was published with the new Investment Strategy Statement in July 2020.

1.3 To meet best practice it is appropriate to continue to prepare a report on the activity of the Committee on an annual basis and this will be adopted as the Business Plan. The 2022/23 Business Plan will incorporate the Training Plan. This would demonstrate compliance against Myners Principles 1: Effective Decision making.

1.4 In line with the Council's Constitution – Part 4 Rules of Procedure Ordinary meetings of the Council will receive reports for the previous year from the Chair of the Pensions Committee; this meeting is scheduled for the 23 March 2022.

1.5 The Business Plan, in line with CIPFA guidance "Principles for Investment Decision Making & Disclosure in the LGPS" suggests that the Business Plan is submitted to the committee for consideration and should contain:

a) Major milestones & issues to be considered by the Committee
b) Financial estimates – investment and administration of the Fund
c) Appropriate provision for training
d) Key targets & methods of measurement
e) Review level of internal & external resources the committee needs to carry out its functions
f) Recommended actions to put right any deficiencies.

1.6 The 2022/23 Business Plan also picks up on the Pensions Administration Service Review undertaken during 2021 to assess current service demands and workloads and notes the intention to increase resources.

2. Training

2.1 It is important that all the members of the Committee are adequately trained and briefed to make effective decisions and those members are aware of their statutory and fiduciary responsibilities and achieve the terms of reference of this Committee, which are:

a) To consider and agree the Investment Strategy Statement for the Pension Fund and subsequently monitor and review performance
b) Authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters
c) To appoint and review the performance of advisers and investment managers for pension fund investments
d) To take decisions on those matters not to be the responsibility of the Executive under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 relating to those matters concerning The Local Government pension Scheme.

2.2 The Pensions Regulator (TPR) Code of Practice which came into force on 1 April 2015 includes a requirement for members of the Pension Committee/Local Pensions Board (LPB) to demonstrate that they have an appropriate degree of knowledge and understanding to enable them to properly exercise their functions.

2.3 LGPS (Amendment) (Governance) Regulations 2015 states that Administering Authority must have regard to guidance issued by the Secretary of State. Guidance was issued by the then Shadow Scheme Advisory Board (SAB) in January 2015 and states that the Administering Authority should make appropriate training available to assist LPB members in undertaking their role.

2.4 A joint training strategy that incorporates Pension Committee member training with LPB members to keep officer time and training costs to a minimum, has been developed and agreed by the Pensions Committee on the 24 November 2015 and the LPB on the 6 January 2016. The Training Strategy can be found in **Appendix A - Annex C.** **The Training Strategy will be reviewed in due course when more information about Department of Levelling Up Housing and Communities (DLUHC) direction with regard to the Good Governance Review is known and the conclusion of The Pensions Regulator New Code of Practice.**

2.5 The Training Strategy formally sets out the arrangements the London Borough of Havering Pension Fund will take in order to comply with the principles of the CIPFA’s Knowledge and Skills Code of Practice.

2.6 Training and development will be held with regard to the work plan as shown in **Appendix A - Annex B**. The training undertaken to date can be seen within **Appendix A - Annex D**

2.7. Maintaining expertise, experience and knowledge is a key focus for the committee in order to meet the “qualitative test” under **Markets in Financial Instrument Directive (MiFID 11).** Firms will undertake an assessment of the **expertise, experience and knowledge** of the local authority and its pension fund committee in order to be reasonably assured that they are capable of making their own investment decisions and have an understanding of the risks involved before a firm will permit election to professional status. All requests for election have been granted for existing investment service providers.

3. Work Plan for 2022/23 and beyond

3.1 In addition to the annual business as usual work programme as shown in **Appendix A - Annex B** there are a number of key issues that are likely to be considered by the Pensions Committee in the coming year and beyond:

a) Continued development and implementation of the Investment Strategy – next steps Equity - review of emerging markets equity investing.
b) Consider local investment and private equity
c) Development of Climate Plan- including baseline assessment of various climate metrics.
d) Environmental, Social, Governance (ESG) Investments continued development and monitoring – including Task Force on Climate Related Financial Disclosures (TCFD) reporting compliance
e) London CIV Pooling progression/Continued transfer of assets to the London CIV
f) Fund Valuation 2022 – Training and overview of results
g) Investment Strategy Statement Health check following 2022 valuation results
h) £95k Cap

i) Planning for Hymans/SAB Good Governance guidance compliance
j) Planning for TPR New Code of practice compliance– there will be overlap with Good Governance/Scheme Advisory Board (SAB) requirements
k) New training policy to reflect Good Governance and TPR compliance
l) Data Improvement Plan – Annual Review
m) SAB developments
n) Consideration of LGPS Regulation changes and consequential policy, as applicable
o) Topical issues discussed as appropriate
p) Potential member inductions for new Pension Committee members
q) Continued training and development

3.2 The above list is not exhaustive and Members are asked to consider if there are any other areas of work that they require to be included.

IMPLICATIONS AND RISKS

Financial implications and risks:

The costs of providing the administrative and financial support and associated costs are reimbursed to the Administrating Authority by the Fund.

There is a considerable risk of poor decision making if Members of the Committee are not adequately trained and it is therefore essential that resources are made available to fulfil appropriate training requirements. Training costs are met from the Pension Fund directly or via the Advisor Fee.

Legal implications and risks:

The Councils constitution provides at Part 4.5 para 2(h) that the meeting of full Council shall:

(h) receive reports for the previous year from the Chairmen of the Overview and Scrutiny Committees, the Audit Committee and the Pensions Committee:
(i) except in the year when there are Borough Elections, at the first ordinary meeting in the Municipal Year; and
(ii) in the year when there are Borough Elections, at the last ordinary meeting before those elections;

The Report at Appendix A is therefore the proposed version to be presented to Council.

The specialist training of those Members who oversee the administration of the Council Pension Scheme is highly desirable in order to help show the proper administration of the scheme. The Council's Constitution recommends that the Membership of the Pension Committee remains static for the life of the Council for the very reason that Members need to be fully trained in investment matters. The life of the Council is considered to be the four year term.

Otherwise there are no apparent legal implications in taking the recommended decisions.

Human Resources implications and risks:

None arising directly.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
iii. foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

An EqHIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

BACKGROUND PAPERS

None

HAVERING PENSION FUND

BUSINESS PLAN/REPORT ON THE WORK OF THE PENSIONS COMMITTEE DURING 2021/22

INTRODUCTION

This is the Business Plan for the London Borough of Havering Pension Fund (the ‘Fund’). Havering Council is an Administering Authority under Local Government Pension Scheme (LGPS) Regulations and as such has delegated authority for this to the Pensions Committee.

The Business Plan sets out the work undertaken by the Committee during 2021/22 and the plan of work for the forthcoming three years. The Business Plan is reviewed and updated annually.

This is the last year of the current Pensions Committee term of office due to the Local Borough Elections being held in May 2022; therefore, the Committee’s achievements will only cover the period 1st April 2021 to 31 December 2021 to meet Council reporting deadlines. Achievements for the period 1st January 2022 to 31 March 2022 will be reported in the next year’s report.

The Business Plan, in line with CIPFA guidance “Principles for Investment Decision Making & Disclosure in the LGPS” outlines:

- Key Targets and Methods of Measurement
- Review level of internal & external resources
- Financial Estimates
- Major milestones and issues considered and to be considered
- Appropriate provision for Training
- Any recommendations actions to put right any deficiencies.

The Fund provides benefits to Council employees (except teachers). The performance of the Fund impacts on the cost of Council services through the cost of employer contributions. It is therefore beneficial to issue a Business Plan/Annual report to all Council Members on the Havering Pension Fund and the work of the Pensions Committee.

KEY TARGETS & METHODS OF MEASUREMENT

The Fund invests employee and employer contributions into a Fund in order to pay pension benefits to scheme members. The Fund is financed by contributions from employees, employers and from profit, interest and dividends from investments.

The Pension Fund consists of 56 employers with active members, of which the London Borough of Havering is the largest. The other employers in the Fund are made of up of 41 Scheduled bodies (Academies and Further Education bodies) and 14 Admitted bodies (13 outsourced contracts and one resolution body).

Pension Fund – Funding

The Fund’s Actuary (Hymans Robertson) carried out a triennial valuation during 2019/20 based on data as at 31 March 2019. The main purpose of the valuation is to calculate the funding position within the Fund and set employer contribution rates for the following three years with the results of the 2019 valuation effecting employer contribution rates from 1 April 2020.

The valuation is a planning exercise for the Fund, to assess the monies needed to meet the benefits owed to its members as they fall due. As part of the valuation process, the Fund reviews its funding and investment strategies to ensure that an appropriate contribution plan is in place. The Fund also monitors the funding position at the midway point between triennial valuations as at 30 September 2020. The purpose of the funding update is to assess whether the funding plan is on track and take actions if necessary. A comparison of funding levels can be seen below:

Comparison of funding levels:

Ongoing funding basis	**31 Mar 2013**	**31 Mar 2016**	**31 Mar 2019**	**30 Sep 2020**
	£m	**£m**	**£m**	**£m**
Assets	461	573	733	795
Liabilities	752	857	1,054	1,168
Surplus/(deficit)	**(291)**	**(284)**	**(321)**	**(373)**
Funding level	61.2%	66.8%	70.0%	68.1%

Since the 2019 valuation, the funding level is relatively unchanged. However, this masks the volatility that occurred in the year because of COVID-19 and the subsequent rally in markets since.

Having reviewed the funding position as at September 2020, no actions were required to change the current funding plan. Employer contributions will be reviewed at the next valuation, based on data as at 31 March 2022.

Pension Fund – Investment Strategy Development & Performance Monitoring

The Investment Strategy Statement (ISS) was updated on the 29 July 2020 to reflect the decisions and progression of the implementation of the investment strategy made by the Committee since its launch in 2017 and the adoption of Investment beliefs.

Following the 29 July 2020 meeting, the Committee considered and agreed further developments/implementation in the investment strategy at its meetings on the 1 October 2020, 16 March 2021, 20 July 2021 and 14 September 2021.

There has been considerable progress during 2021/22 implementing the Fund's Investment Strategy, with a particular focus, in line with Committee's investment beliefs agreed 17 March 2020, on taking steps to mitigate climate change risk, The Committee recognises the long-term financial risks and opportunities presented by climate change and have taken a number of decisions to address this, which are included below:

<u>Significant implementation/progression of the investment strategy during 2021/22:</u>

- Increased the commitment to Stafford SISF IV fund by €10m (c£9m) to maintain the target asset allocation.

- Following the decision to increase the infrastructure target asset allocation from 7.5% to 10%, the additional 2.5% increase was allocated to the London CIV (LCIV) Renewables Fund. On-boarding process completed with the first capital calls commencing in July 2021.

- Invested 10% of the Funds' assets in the Legal & General Investment Management (LGIM) Future World Fund, funded from redeeming the LGIM Fundamental Equity mandate (aka FTSE International Limited and Research Affiliates LLC (RAFI) and by rebalancing the Baillie Gifford Global Alpha overweight allocation. Switch was completed on the 9 September 2021.

- Agreed to convert the investment in the Baillie Gifford Global Alpha Fund to that of the Baillie Gifford Paris Aligned Global Alpha Fund. Holdings with the LCIV Baillie Gifford

Global Alpha Fund was switched to its Paris Aligned version on the 15 September 2021.This change is consistent with the Committee's investment belief on managing climate risk and demonstrates progressive change, whilst creating potential to capture upside opportunities associated with the transition to a lower carbon economy.

- Increased the allocation to the Funds UK Property Manager (UBS) by £10m at its meeting on the 14 September 2021. Payment was made on the 20 October 2021 and funded from internally held cash.

- In order to maintain the overall target asset allocation to Private Debt at 7.5%, members agreed to make continued investments in the new vintages issued by Churchill and Permira. First Capital Call for the new Churchill IV fund was 23 November 2021. The on boarding of the Permira Credit Solutions V (PCS5) completed on the 17 December 2021 with no capital calls to date.

- Increased the commitment to JP Morgan by £12m. This has yet to be paid and will remain in their commitment queue waiting to be called, which as at December 2021 is expected to be 9 to 12 months although this could be shorter depending on transaction activity and capital raising.

- Invested 5% to the LCIV Passive Equity Progressive Paris Aligned (PEPPA) Fund. This was funded from a drawdown from the Legal & General All World Equity Fund and completed on 3 December 2021. This low carbon fund aims to meet the requirements of the EU Paris-Aligned Benchmark standard. Consequence of this change also sees a reduction in the Weighted Average Carbon Intensity of the Fund's equity assets from 82% to 76%.

- The Fund has continued to fund capital calls for the Private Debt and Infrastructure mandates and as at 31 December 2021the amounts are as follows:

Investment Manager	**Mandate**	**Amount £000**
Stafford II	Infrastructure	1,719
Stafford IV	Infrastructure	4,268
LCIV Renewables	Infrastructure	6,536
Churchill II	Private Debt	419
Churchill IV	Private Debt	3,836
Permira PCS4	Private Debt	6,944
Total		**23,722**

<u>Asset Allocations</u>

The asset allocations as at 31 December 2021 are shown against the long-term target below together with individual fund manager benchmarks:

Asset Class		Target Allocation %	Actual Allocation 31 Dec 2021 %	Benchmark and Target
Equities		**40.0**	**42.0**	
Legal & General Investment Management (LGIM) Passive Global Equity	LCIV aligned	5.0	3.7	FTSE All World Equity Index
LGIM Passive Emerging Markets	LCIV aligned	5.0	4.1	FTSE World Emerging Markets
LGIM Future World Fund	LCIV aligned	10.0	10.2	FTSE AW ex CW Climate Balanced Factor Index
Baillie Gifford Global Alpha Paris Aligned Fund	LCIV	15.0	19.0	MSCI ACWI by 2- 3 % p.a. over a rolling 5 five year period Plus have a weighted average greenhouse gas intensity that is lower than MSCI ACWI EU Paris Aligned Requirement index
State Street Passive Equity Progressive Paris Aligned Fund (PEPPA)	LCIV	5.0	5.0	Developed EX-Korea Large Midcap Net Zero 2050 Paris aligned ESG Index
Multi-Asset		**20.0**	**21.7**	
Baillie Gifford (Diversified Growth Fund)	LCIV	7.5	9.6	Bank Base Rate +3.5%
Ruffer Absolute Return	LCIV	12.5	12.1	Preserve and grow capital (LIBOR +4% p.a.)
Real Asset		**20.0**	**15.3**	
UBS UK Property	Non LCIV	6.0	6.0	Match MSCI All Balanced Funds Weighted Average Index
CBRE Global Property	Non LCIV	4.0	3.2	CPI +5%% p.a. (net of fees)
Stafford II & IV Global Infrastructure	Non LCIV	3.5	2.9	CPI +5%% p.a. (net of fees)
JP Morgan Infrastructure	Nov LCIV	4.0	2.5	CPI +5%% p.a. (net of fees)
Renewable Energy Infrastructure	LCIV	2.5	0.7	CPI +5%% p.a. (net of fees)
Bonds and Cash		**20.0**	**21.0**	
Royal London Index Linked Bonds	Non LCIV	5.0	4.6	40% FTSE Index Linked over 5 Year index.
Royal London Multi Asset Credit	Non LCIV	7.5	6.7	• 50% ICE BAML, BB-B Index • 50% Credit Suisse US Leveraged Loan Index GBP Hedged
Royal London Corporate Bonds	Non LCIV	0.0	2.9	IBOXX Sterling Non Gilt over 10 Year index

Asset Class		Target Allocation %	Actual Allocation 31 Dec 2021 %	Benchmark and Target
Churchill II & IV Private Debt	Non LCIV	3.0	2.5	Outperform cash + 4% p.a
Permira PCS4 & PCS5 - Private Debt	Non LCIV	4.5	2.8	Outperform cash + 4% p.a
Currency Hedging	Russell	0.0	0.1	Hedge100% of EUR,USD and AUD currency (non-equity)
Cash	n/a	0.0	1.4	n/a
TOTAL		**100.0**	**100.0**	

Underweight positions in Private Debt and Infrastructure relates to outstanding capital calls, which will continue to be met during 2022/23 and beyond. This will be mainly be funded from the overweight allocation to Corporate Bonds, Diversified Growth Fund and a return of Capital.

Overweight allocation to cash will be considered for reinvestment or settlement of capital calls.

In line with the ISS, when the Fund allocation deviates by 5% or more from the strategic allocation, the assets will be rebalanced back to within 2.5% of the strategic asset allocation.

As at 31 December 2021 the total value of assets with the London CIV is £439m which represents 46% of assets under management. The London CIV has a business arrangement with LGIM to deliver the passive global mandate; this can be classified as being held within the London CIV so the allocation increases to £611m. Overall allocation to LCIV is 64%.

The Fund will continue to have ongoing discussions with the London CIV to progress the transition of assets onto the London CIV platform in accordance with the Department of Levelling Up, Housing and Communities (DLUHC) timelines.

Fund Performance

The performance of the Fund is measured against a tactical and a strategic benchmark.

Strategic Benchmark - A strategic benchmark has been adopted for the overall Fund of Index Linked Gilts + 1.8% per annum. This is the expected return in excess of the fund's liabilities over the longer term. The strategic benchmark measures the extent to which the fund is meeting its longer term objective of reducing the funds deficit.

Tactical Benchmark - Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance.

The Fund uses the performance measurement services from Northern Trust, to provide comparative statistics on the performance of the Fund for its quarterly monitoring.

The overall net performance of the Fund as at 31 December 2021 against both benchmarks is shown below:

	1 year to 31.12.21 %	3 Years to 31.12.21 %	5 years to 31.12.21 %
Fund Return	10.61	12.15	8.38
Tactical Benchmark	**10.66**	**9.75**	**6.98**
Performance	-0.05	2.39	1.40
Fund Return	10.61	12.15	8.38
Strategic Benchmark	**5.89**	**8.95**	**6.46**
Performance	4.72	3.19	1.92

Source: Northern Trust
Totals may not sum due to geometric basis of calculation and rounding

Comments on Fund performance from the Fund's Investment Advisors:

The overriding investment objective for the Fund is to support an affordable and stable level of contributions for the longer term. The current funding approach implies a target investment return of Gilts + 1.8% p.a. over the longer term from the Fund's assets, or c. 3.3% per annum in absolute terms based on yields as at 31 March 2019 (the previous valuation date).

The Fund has experienced strong asset growth over the 12 month, 3 year and 5 year periods to 31 December 2021 (at 10.6%, 12.2% and 8.4% per annum respectively). Returns over all time periods shown are therefore substantially ahead of the long term (absolute) return deemed sufficient to support an affordable and stable level of contributions.

The Fund's equity allocation drove the strong performance in 2021, with positive contributions also coming from the multi-asset, debt and real asset allocations. Within the equity allocation, retaining a diversified exposure to different investment 'styles' helped reduce the volatility of returns during the year. This was particularly beneficial in 2021 as equity markets swung between favouring stocks which are perceived to be good 'value' in terms of their fundamental assessment (such as provided by the LGIM RAFI allocation) and stocks with large expected revenue growth (such as provided by the LCIV Global Alpha Fund, managed by Baillie Gifford).

The Fund has continued taking steps to address climate risk within its strategy. The Committee recognises the long-term financial risks presented by climate change and made progressive changes throughout the year to evolve the strategy to better account for climate risks. In particular, 10% of the Fund's equity allocation was transferred to a multi-factor equity fund with a climate overlay. Further, 5% of assets were transferred from conventional market cap equities to an LCIV equity fund which offers greater alignment with the Paris Agreement. The LCIV Global Alpha allocation was also transferred to a version of the fund aligned with the Paris Agreement. Finally, the Committee also made a commitment to invest in a renewable energy infrastructure fund which started drawing capital during the year. These steps in conjunction with the other changes gives confidence that the level of returns required to support affordable and stable contributions can be (at least) supported by the current investment approach whilst addressing longer term systemic change.

Implementation of the previously agreed changes in strategy have continued over the year and have seen allocations to multi-asset mandates reduced, albeit the underlying equity exposure has been retained. Further commitments were made to infrastructure and private debt to retain these allocations, offering the prospect of long-term income generation and boosting diversification within the strategy.

Due to a change in guidance, the Committee reviewed the reporting arrangements in June 2017 and agreed that only one fund manager will attend each Committee meeting, unless performance concerns override this. Managers in the London CIV sub funds are now monitored by them and the London CIV produce quarterly monitoring reports, which are distributed to the Committee.

Cyclical coverage of manager monitoring is set out in **Annex B,** covering 2021/22 and 2022/23.

INTERNAL & EXTERNAL RESOURCES

Investment strategy and performance monitoring of the Fund is a matter for the Committee which obtains and considers advice from the Authority and onesource officers, and as necessary from the Fund's appointed professional adviser, actuary and performance measurers who attend meetings as and when required.

The membership of the Pensions Committee reflects the political balance of the Council and the structure of the Committee (those responsible for decision making during the year to 31 December 2021), are as follows:

Conservative Group:
Cllr John Crowder (Chair)
Cllr Osman Dervish
Cllr Jason Frost

Residents Group
Cllr Stephanie Nunn

North Havering Residents' Group
Cllr Martin Goode (Vice Chair March 2019)

Upminster & Cranham Residents' Group
Councillor Ron Ower

Labour Group
Cllr Keith Darvill

Other
Union Members (Non-voting) - John Giles (Unison) replaced by Derek Scott (Unison) from September 2019) and 2019 Andy Hampshire (GMB)
Admitted/Scheduled Body Representative (voting) (currently vacant)

Day to day management of the Fund is delegated to the authority's statutory section 151 officer/Chief Operating Officer and delivered via oneSource (shared service arrangement between London Borough of Havering, Newham and Bexley (part year only)).

From 1 November 2017, the London Borough of Havering delegated the pension administration service to Lancashire County Council (LCC) who has engaged the Local Pension Partnership Administration (LPPA) to undertake their pension's administration.

The Pensions Committee is supported by the Administrating Authority's Finance and Administration Services (oneSource) and the associated costs are reimbursed to the Administrating Authority by the Fund.

Estimated costs for the forthcoming three years for Administration, Investment Management expenses and Governance & Oversight follow in this report.

Pensions Administration - The LPPA is responsible for all aspects of the Fund administration including calculating benefits, processing joiners and leavers, record amendments, end of year returns, monitoring and administration of the Authority's Additional Voluntary Contributions (AVC) scheme. LPPA engagement team is responsible for communications and training for Scheme employers and pension scheme members.

At a Pensions Committee meeting held on the 16 March 2021, members reviewed and agreed the 2021/22 budget for the Pensions Administration contract.

Pensions Administration also includes a post for the Projects and Contracts Manager who monitors the pension's administration contract and ad hoc projects.

A review of Pension Administration services was undertaken during 2021 to assess current service demands and workloads and notes the intention to increase resources. This takes into account the additional service demands following the Employer Risk Management Service transferring in-house from the 1 April 2021, which was previously administered by LPPA. The financial information can be seen in Financial Estimates section.

Accountancy and Investment support - The Pensions and Treasury team within the oneSource Finance Service supports the Pension Fund consists of an establishment of 2 full time equivalent posts (3 officers). They ensure that members of the committee receive advice on investment strategy and monitoring of the managers. The team also reviews management arrangements and other issues as appropriate, as well as accounting for the activities of the Fund.

A Finance transformation project undertaken during 2021/22 identified the need to develop an appropriate succession plan and introduce trainee level staff or rotations. Succession planning is currently ongoing.

FINANCIAL ESTIMATES

The financial position of the Havering Pension Fund for 2021/22 is included in the formal Annual Report of the Fund itself and not included here. The Annual Report is prepared later in the year when the pension fund accounts have been finalised.

Projected outturn figures consist of actuals as at 31 December 2021 where available, plus estimated for a full year.

In line with the Chartered Institute of Public Finance & Accountancy (CIPFA) LGPS Management Costs guidance, Management costs are shown split between three cost categories as follows:

1. Administrative Expenses

Includes all staff costs associated with Pensions Administration, including Payroll.

	2020/21 Actual £000	2021/22 Estimate £000	2021/22 Projected Outturn £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Administration & Processing*	580	660	700	745	755	755
Other Fees (Levies)	8	10	8	10	10	10
Other Costs (Interest)	13	25	20	20	20	20
TOTAL	**601**	**695**	**728**	**775**	**785**	**785**

Please note the following regarding the above figures:

- 2021/22 Administration costs include the Pension Administration Contract LPPA, Project & Contract manager, payroll & legal charges and ad hoc project costs. The increase in budget in 2021/22 is the result of the agreed increase to the overall Pension Administration contract with LCC as well as an increase of payroll recharge following a review of the actual costs to administer the service following the last review in 2017. Additional resources have also been factored in to support the triennial valuation.
- A further increase in 2022-23 is planned, as a result of factoring in 5.1% inflation on the Administration Contract, as well as additional resource to support a number of pension related projects, through expected changes to regulations i.e. McCloud and work to further improve the funds data i.e. reconciliation between the Pension Administration and Payroll System.
- There is a slight increase in costs for 2023-24 as a result of the assumption by applying an additional 5.1% inflation to the overall contract.

2. Investment Management expenses

These costs will include any expenses incurred in relation to the management of Fund assets.

Fees are calculated based on market values under management and therefore increase or reduce as the value of investments change.

	2020/21 Actual £000	2021/22 Estimate £000	2021/22 Projected Outturn £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Fund Manager Fees	3,159	3,100	3,855	3,500	3,500	3,500
Performance Related Fees	102	105	117	120	120	120
Transaction costs	67	80	80	80	80	80
Custodian Fees	37	50	40	40	40	40
Performance Measurement services	33	35	30	35	35	35
Other Investment Fees	14	15	9	15	15	15
TOTAL	**3,412**	**3,385**	**4,131**	**3,790**	**3,790**	**3,790**

Please note the following regarding the above figures:

- Fund Manager Fees are charged according to the fund value; therefore an average figure from the last two years has been applied for estimates 2022/23 onwards. Projected outturn includes one off equalisation fees of £300k
- Custodial service contract increased to provide additional accounting service from 2021/22.

3. **Governance and Oversight**

This category captures all costs that fall outside the above two categories and include legal, advisory, actuarial and training costs. Staff costs associated with the financial reporting and support services to the Committee is included here.

	2020/21 Actual £000	2021/22 Estimate £000	2021/22 Projected Outturn £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Financial Services	163	165	165	165	165	165
Actuarial Fees	13	25	18	100	25	25
Audit Fees	16	60	89	60	60	60
Member Training (inc. LPB)	-	10	1	10	10	10
Advisor Fees	69	75	93	75	75	75
London CIV	119	110	119	120	120	120
Local Pension Board	1	5	2	5	5	5
Pensions Committee	33	35	33	35	35	35
Other Fees	1	10	-	5	5	5
TOTAL	**415**	**495**	**520**	**575**	**500**	**500**

Please note the following regarding the above figures:

- Next valuation in 2022 so higher charges expected during 2022/23.
- Audit fees subject to approval by Public Sector Audit Appointments (PSAA).

OVERALL MANAGEMENT TOTAL	**4,428**	**4,575**	**5,379**	**5,140**	**5,075**	**5,075**

MAJOR MILESTONES & ISSUES CONSIDERED/TO BE CONSIDERED

Pension Committee meetings 2021/22

The Committee met a number of times during 2021/22 and **Annex A** sets out the coverage of matters considered, but the key issues that arose in the period are shown below:

On 11 March 2020 the World Health Organisation (WHO) declared a COVID-19 pandemic. This caused a world-wide public health emergency. Legislation permitting on line council meetings due to COVID lapsed on the 6 May 2021, therefore during 2021/22 committee members attended meetings in person with officers and other presenters attending virtually.

Summary of Major Milestones & key issues considered by the Committee

- Agreed further implementation of the investment strategy
- Agreed the Pension Fund Administration Strategy
- Agreed the Pension Fund Charging Policy
- Agreed the Pension Fund Data Improvement Plan
- Agreed the Pension Fund Communications Strategy
- Agreed the continuation of the Policy for the overpayment of pension following death of a member.
- Agreed the Business Plan and Annual report on the work of the Committee 2020/21
- Agreed the Pension Fund Annual Report for the year ending 31 March 2021
- Agreed the updated Pension Fund Risk Register
- Reviewed Fund Managers quarterly performance – received presentations from Churchill (Private Debt), LGIM (Passive equities) and Permira (Private Debt).
- Reviewed service performance of the Pension Fund's Custodians, Investment Advisor and Actuary.
- Noted Pension Fund Accounts for the Year ending 31 March 2021
- Noted Local Pension Board Annual report for the year ending March 2021
- Noted the review of Fund Manager voting and engagement activity
- Noted results of the Whistle Blowing Annual review
- Local Government Pension scheme (LGPS) updates - The Committee receives updates on relevant issues and developments in the LGPS and London CIV.

Pension Committee meetings 2022/23 and onwards

In addition to the annual cyclical work programme as shown in **Annex B** there are a number of key issues that are likely to be considered by the Pensions Committee in the coming year and beyond:

- Continued development and implementation of the Investment Strategy – next steps Equity - review of emerging markets equity investing.
- Consider local investment and private equity
- Development of Climate Plan- including baseline assessment of various climate metrics.
- Environmental, Social, Governance (ESG) Investments continued development and monitoring – including Task Force on Climate Related Financial Disclosures (TCFD) reporting compliance
- London CIV Pooling progression/Continued transfer of assets to the London CIV
- Fund Valuation 2022 – Training and overview of results
- Investment Strategy Statement Health check following 2022 valuation results
- £95k Cap

- Planning for Hymans/SAB Good Governance guidance compliance
- Planning for TPR New Code of practice compliance– there will be overlap with Good Governance/Scheme Advisory Board (SAB) requirements
- New training policy to reflect Good Governance and TPR compliance
- Data Improvement Plan – Annual Review
- SAB developments
- Consideration of LGPS Regulation changes and consequential policy, as applicable
- Topical issues discussed as appropriate
- Potential member inductions for new Pension Committee members
- Continued training and development

PROVISION OF TRAINING

The Pensions Regulator Code of Practice, which came into force on 1 April 2015, includes a requirement for members of the Pension Committee (PC) /Local Pension Board (LPB) to demonstrate that they have an appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Committee/LPB.

A joint training strategy for the PC/LPB was agreed by the Pensions Committee on the 24 November 2015 and presented to the Local Pension Board at its meeting on the 6 January 2016.

The Training Strategy can be found in Annex C. The Training Strategy will be reviewed once guidance has been issued for the anticipated Good Governance Review and The Pensions Regulator New Code of Practice.

The PC of the London Borough of Havering Pension Fund fully supports the intentions behind CIPFA's Knowledge and Skills Code of Practice and has agreed to formally adopt its principles. The updated June 2021 Knowledge and Skills framework for committee members will be adopted as part of the training programme following the Local borough elections in May 2022.

As set out in the Councils constitution, committee procedure rules, a member appointed to the PC shall have received, or shall within six months of appointment receive, training appropriate to its membership. If a member does not undertake the required training within six months of appointment then that member shall not partake in the decision making of the Committee until their training has been completed. Long membership of the committee is encouraged in order to ensure that expertise is developed and maintained within. The Council recommend that the membership of the Pension Committee remain static for the life of the term in Council, unless exceptional circumstances require a change.

Maintaining expertise, experience and knowledge is a key focus for the committee in order to meet the "qualitative test" under Markets in Financial Instrument Directive (MiFID 11). Firms will undertake an assessment of the expertise, experience and knowledge of the local authority and its pension fund committee in order to be reasonably assured that they are capable of making their own investment decisions and have an understanding of the risks involved before a firm will permit election to professional status. All requests for election have been granted for existing investment service providers.

A training budget has been agreed for the provision of training for £10,000 but this will be re-evaluated as appropriate. Training costs will be met from the Pension Fund.

The majority of training and development is cyclical in nature, spanning the four year membership of the PC. Associated training and development will be given when required which will be linked to the Pension Fund meeting cyclical coverage for 2020/21 and onwards as shown in **Annex B.**

In addition to the cyclical training and development that the PC will have over the lifetime of their membership, training will be provided in the areas where it has been specifically requested or has been identified as required. Special PC meetings will be arranged from time to time to discuss matters that fall outside of the cyclical meetings.

The Fund encourages use of the three day training courses offered by the Local Government Employers which is specially targeted at elected members with Pension Fund responsibilities. All new members are encouraged and given the opportunity to attend.

Members receive briefings and advice from the Fund's Investment adviser at each Committee meeting.

Members and Officers also attend seminars arranged by Fund Managers or other third parties who specialise in public sector pensions.

The Fund is a member of the CIPFA Pensions network, which gives access to an extensive programme of events, training/workshops, weekly newsletters and documentation, including briefing notes on the latest topical issues.

The Head of Pensions and Treasury, Projects and Contracts Manager, Pension Fund Manager (Finance) and /or Accountant also attends quarterly forum meetings with peers from other London Boroughs; this gives access to extensive opportunities of knowledge sharing and benchmarking data.

Officers within onesource Pensions teams also benefit from sharing of best practice

The London CIV runs periodic seminars to aid Officer and Committee member development.

Training and development took place during 2021/22 to ensure that Members of the Committee were fully briefed in the decisions they were taking.

Training logs are maintained and attendance and coverage can be found in **Annex D**. Training has been recorded since the election in May 2018 to demonstrate continuous development and training during their full term of elected office on the Pensions Committee.

The Pensions Regulator has launched an e-learning programme and this has been made available for members of the Pensions Committee and Local Pension Board to use.

Training will be targeted as appropriate.

PENSIONS COMMITTEE MEETINGS DURING 2021/22		ANNEX A
MONTH	**TOPIC**	**ATTENDED BY**
20 July 2021	• Noted Pension Fund Performance Monitoring for the quarter ending 31 March 2021, received presentations from one of the Funds Private debt Managers Churchill Nuveen. • Noted Pension Fund Accounts for the year ending 31 March 2021. • Agreed the Business Plan/Annual Report on the work of the Pensions Committee 2020/21 • Agreed further execution in the progression of investment strategy implementation. Decisions covered switch to LGIM Future world Fund and further next vintage allocations to the Churchill and Permira mandates.	Cllr Martin Goode (chair) Cllr Jason Frost Cllr Robby Misir (sub for Cllr Dervish) Cllr Matt Sutton (sub for Cllr Crowder) Cllr Stephanie Nunn Cllr Ron Ower
14 September 2021	• Noted Pension Fund Performance Monitoring for the quarter ending 30 June 2021, received presentations from the funds Passive Equity Manager – Legal and General Investment Management LGIM) • Agreed the Pension Fund Annual Report for the year ending 31 March 2021. • Agreed further execution in the progression of investment strategy implementation. Decision covered investment to the LCIV Passive Equity Progressive Paris Aligned Fund (PEPPA). • Agreed the Pension Fund Pensions Administration Strategy. • Agreed the Pension Fund Charging Policy • Agreed the Pension Fund Data Improvement Plan	Cllr John Crowder (chair) Cllr Martin Goode (vice chair) Cllr Jason Frost Cllr Ron Ower
09 November 2021	• Noted the views of officers on the performance of the Fund's Custodian for the period to September 2021. • Noted the views of officers on the performance of the Fund's Actuary for the period to September 2021. • Noted the views of officers on the performance of the Fund's Investment Advisor for the period to September 2021. • Noted results of the Whistle Blowing Annual review • Agreed the updated Pension Fund Risk Register • Agreed the Pension Fund Communications Strategy for the three years to November 2024 • Agreed the continuation of the Policy for the overpayment of pension following death of a member. • Noted the Local Pension Board Annual Report for 2020/21	Cllr Jason Frost (chair) Cllr Stephanie Nunn Cllr Ron Ower Cllr Keith Darvill (part)

PENSIONS COMMITTEE MEETINGS DURING 2021/22		**ANNEX A**
MONTH	**TOPIC**	**ATTENDED BY**
25 January 2022 (rescheduled from 07 Dec 2021)	• Noted the Pension Fund Performance Monitoring for the quarter ending 30 September 2021, received presentations from the Fund's Private Debt Manager Permira. • Noted the review of Fund Manager Voting and Engagement activity	Cllr John Crowder (chair) Cllr Martin Goode (vice chair) Cllr Osman Dervish Cllr Jason Frost Cllr Stephanie Nunn Cllr Ron Ower

- Please note that three members constitute a quorum.
- Target dates for issuing agendas were met.

KEY REPORTING DATES / INDICATIVE WORK PLAN 2022/23

ANNEX B

	15 MARCH 22	**JULY 2022**	**SEPTEMBER 2022**	**NOVEMBER 2022**	**DECEMBER 2022**	**MARCH 2023**
Formal Committees with Members	▪ Overall Monitoring Report on Pension Fund to end of Dec 21 (Royal London) ▪ Business Plan/Report on the work of the Pensions Committee 2021/22 ▪ GAD Section 13 results	▪ Overall Monitoring Report on Pension Fund to end of Mar 22 Russell (Currency) ▪ Pension Fund Accounts 2021/22 ▪ Climate Plan and ISS Update ▪ TCFD reporting	▪ Overall Monitoring Report on Pension Fund to end of Jun 22: UBS (Property) ▪ Pension Fund Annual Report for 2021/22 ▪ Review Emerging Markets Equity Investing	▪ Annual review of Custodian ▪ Annual review of Adviser ▪ Annual review of Actuary ▪ Review of Governance Policy ▪ Whistleblowing Annual Assessment ▪ Risk Register Review ▪ Data Improvement Plan Review ▪ Overpayment policy following Death ▪ Funding Strategy Statement Update	▪ Overall Monitoring Report on Pension Fund to end of Sep 22: Stafford (Infrastructure) ▪ Good Governance review - outcomes and implementation planning. ▪ TPR New Code of Practice ▪ Annual review of Fund Managers Voting & Engagement	▪ Overall Monitoring Report on Pension Fund to end of Dec 22: Churchill (Private Debt) ▪ 2022 Valuation results ▪ Investment Strategy Statement Review
Training	Associated Training	Associated Training	Associated Training	Associated Training	Associated Training	Associated Training

KEY REPORTING DATES / WORK PLAN 2023/24

	JULY 2023	SEPTEMBER 2023	NOVEMBER 2023	DECEMBER 2023	MARCH 2024
Formal Committees with Members	▪ Overall Monitoring Report on Pension Fund to end of March 23: JP Morgan (Infrastructure) ▪ Business Plan/Report on the work of the Pensions Committee 2022/23 ▪ Pension Fund Accounts 2022/23	▪ Overall Monitoring Report on Pension Fund to end of June 23 - LCIV (Equities/Renewables) ▪ Pension Fund Annual Report for 2022/23	▪ Annual review of Custodian ▪ Annual review of Adviser ▪ Annual review of Actuary ▪ Review of Governance Policy ▪ Whistleblowing Annual Assessment ▪ Risk Register Review ▪ Data Improvement Plan Review ▪ Overpayment policy following Death	▪ Overall Monitoring Report on Pension Fund to end of September 23 CBRE (Property) ▪ Annual review of Fund Managers Voting & Engagement	▪ Overall Monitoring Report on Pension Fund to end of December 23: Permira (Private Debt).
Training	Associated Training	Associated Training	Associated Training	Associated Training	Associated Training

ANNEX B (continued)

KEY REPORTING DATES / WORK PLAN 2024/25

	JULY 2024	SEPTEMBER 2024	NOVEMBER 2024	DECEMBER 2024	MARCH 2025
Formal Committees with Members	▪ Overall Monitoring Report on Pension Fund to end of March 24: LGIM (Passive Equities) ▪ Business Plan/Report on the work of the Pensions Committee 2023/24 ▪ Pension Fund Accounts 2023/24	▪ Overall Monitoring Report on Pension Fund to end of June 24 – Royal London (Bonds) ▪ Pension Fund Annual Report for 2023/24 ▪ Triennial mid-point valuation	▪ Annual review of Custodian ▪ Annual review of Adviser ▪ Annual review of Actuary ▪ Review of Governance Policy ▪ Whistleblowing Annual Assessment ▪ Risk Register Review ▪ Communications Strategy 2024 – 2027 ▪ Pensions Administration Strategy Review ▪ Pension Fund charging Policy Review ▪ Data Improvement Plan Review ▪ Overpayment policy following Death	▪ Overall Monitoring Report on Pension Fund to end of September 24 Russell (Currency) ▪ Annual review of Fund Managers Voting & Engagement	▪ Overall Monitoring Report on Pension Fund to end of December 24: UBS (Property)
Training	Associated Training	Associated Training	Associated Training	Associated Training	Associated Training

Contents

LGPS Knowledge & Skills Training Strategy

1 Introduction
2 Meeting the business plan
3 Delivery of Training
4 On-going development
5 CIPFA Requirements
6 Guidance from the Scheme Advisory Board
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8 Risk
9 Budget

Introduction

This is the Training Strategy for the London Borough of Havering Pension Fund.

It sets out the strategy agreed by the Pension Committee and the Local Pension Board concerning the training and development of the members of the

- Pension Committee (the "Committee Members");
- members of the local pension board (the "Board members") and
- officers of the London Borough of Havering Pension Fund responsible for the management of the Fund (the "Officers").

The Training Strategy is established to aid the Committee Members in performing and developing personally in their individual roles and to equip them with the necessary skills and knowledge to challenge and act effectively within the decision making responsibility put upon them. A code of practice and a framework of knowledge and skills has been developed by CIPFA which LGPS Funds are expected to sign up to.

The Public Service Pensions Act 2013 also requires London Borough of Havering Council to set up a Local Pension Board. The Act requires the Pensions Regulator to issue a code of practice relating to the requirements of the knowledge and understanding of Board members. Guidance on the knowledge and understanding of Local Pension Boards in the LGPS has also been issued by the Shadow Scheme Advisory Board in January 2015. Although this has not been designated as statutory guidance it should be held as good guidance and should be acknowledged.

The objective of the CIPFA knowledge and skills framework is to determine and set out the knowledge and skills sufficient to enable the effective analysis and challenge of decisions made by officers and advisers to the Pension Committee whilst the guidance for local pension boards issued by the Shadow Scheme Advisory Board is to assist the individual Board members in undertaking their role to assist the Scheme Manager (the London Borough of Havering Pension Fund) in the effective governance and administration of the local government pension scheme.

The training desired to achieve the additional knowledge and skills will be contained in the appropriate training plan(s)

Strategy Objectives

The Fund objectives relating to knowledge and skills are to:

- Ensure the pension fund is managed and its services delivered by people who have the appropriate knowledge and expertise;
- Ensure the pension fund is effectively governed and administered;
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and are well based and regulatory requirements or guidance of the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for Communities and Local Government are met.

To achieve these objectives –

The Committee Members require an understanding of:

- Their responsibilities as an administering authority of a local government pension fund;
- The fundamental requirements relating to pension fund investments;

- The operation and administration of the pension fund;
- Controlling and monitoring the funding level; and
- Taking effective decisions on the management of the London Borough of Havering Pension Fund.

Board members are conversant with–

- The Regulations and any other regulations governing the LGPS
- Any document recording policy about the administration of the Fund
- and have knowledge and understanding of:
- The law relating to pensions; and
- Such other matters as may be prescribed

To assist in achieving these objectives, the Fund will aim for full compliance with the CIPFA Knowledge and Skills Framework and Code of Practice to meet the skill set within that Framework. Attention will also be given to the guidance issued by the Shadow Scheme Advisory Board, the Pensions Regulator and guidance issued by the Secretary of State. So far as is possible, targeted training will also be provided that is timely and directly relevant to the Committee's and Board's activities as set out in the Fund's 3-year business plan. For example, funding training will be given immediately preceding the Committee or Board meeting that discusses the Funding Strategy Statement.

Board members will receive induction training to cover the role of a local pension board and understand the duties and obligations of a LGPS administering authority, including funding and investment matters.

All those with decision making responsibility in relation to LGPS pension matters and Board members will:

- have their knowledge measured and assessed;
- receive appropriate training to fill any knowledge gaps identified; and
- seek to maintain their knowledge.

Application of the training strategy

This Training Strategy will apply to all Committee Members and representatives with a role on the Pension Committee and to all the Board members. Other officers involved in the management and administration of the Fund will have their own sectional and personal training plans and career development objectives.

Purpose of training

The purpose of training is to:

- Equip people with the necessary skills and knowledge to be competent in their role;
- Support effective and robust decision making;
- Provide individuals with integrity;
- Meet the required needs in relation to the Fund's objectives.

Summary

This training strategy:

- Assists in meeting the Fund's objectives;
- Meets the business plan;

- Will assist in achieving delivery of effective governance and management;
- Will equip those responsible with appropriate knowledge and skills;
- Promote ongoing development of the decision makers;
- Lead to demonstrating compliance with the CIPFA Knowledge and Skills Framework;
- Lead to demonstrating with statutory requirements and associated guidance

Meeting the business plan

Timely and relevant

There will be times in the year when different circumstances will require specific training. For example, funding training can be provided just prior to the Committee meeting that discusses the Funding Strategy Statement.

It is vital that training is relevant to any skills gap or business need and training should be delivered in a manner that fits with the business plan.

The training plan will therefore be regularly reviewed to ensure that training will be delivered where necessary to meet immediate needs to fill knowledge gaps.

Delivery of Training

Training resources

Consideration will be given to various training resources available in delivering training to the Committee Members, Board members or officers in order to achieve efficiencies. These may include but are not restricted to:

For Pension Committee and Local Pension Board Members	For Officers
• In-house* • Self-improvement and familiarisation with regulations and documents • The Pension Regulator's e-learning programme • Attending courses, seminars and external events • Internally developed training days and pre/post Committee/Board sessions* • Shared training with other Funds or Frameworks* • Regular updates from officers and/or advisers* • Circulated reading material	• Desktop / work based training • Attending courses, seminars and external events • Training for qualifications from recognised professional bodies (e.g. CIPFA, CIPP, PMI) • Internally developed sessions • Shared training with other Funds or Frameworks • Circulated reading material

*These may be shared training events for Pension Committee and Local Pension Board members

Training Plans

To be effective, training must be recognised as a continual process and will be centred on 3 key points

- The individual
- The general pensions environment
- Coping with change and hot topics

Training Plans will be developed at least on an annual basis, as per the Business Plan. These will be updated as required taking account of the identification of any knowledge gaps, changes in legislation, Fund events (e.g the triennial valuation) and receipt of updated guidance.

Induction Training will be provided for all new officers with pensions responsibilities, members of the Pension Committee and Local Pension Board. This will involve covering the requirements of the Training Strategy alongside guidance and information on the requirements of their roles.

External Events

As information on events becomes available, members will be advised by email.

After attendance at an external event, Committee Members and Board members will be expected to provide verbal feedback at the following Pension Committee/Board meeting covering the following points:

- Their view on the value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to other Pension Board members.

Officers attending external events will be expected to report to their direct line manager with feedback covering the following points:

- Their view on value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to other officers.

On-going development

Maintaining knowledge

In addition to undertaking on-going assessment in order to measure knowledge and skills against the CIPFA requirements and identify knowledge gaps, Officers, Committee Members and Board members are expected to maintain their knowledge of on-going developments and issues through attendance at external events and seminars.

Appropriate attendance at events for representatives of the Pension Committee and Board will be agreed by the appropriate chairman.

If an event occurs and appropriate, members will be advised by email.

The Committee/Board will approve an appropriate level of credits for attendance at an event in relation to the type of event, its content and relevance to knowledge maintenance.

In any event, attendance at events/seminars (which may include some internal training sessions) that are not direct training courses focussed on the CIPFA Knowledge Skills Framework or issued guidance but enhance and improve related on-going and emerging pension knowledge will count as one credit for each session of up to a half day.

Where the Committee/Board members have work related experience or previous knowledge through former membership of a Committee or Board will be able to count this as credits in their own assessment and score accordingly.

There is a practical recognition that it will take a newly appointed member a reasonable period to attain the required full level of knowledge and understanding and hence the training and continued development will span the duration of the role.

Owing to the changing world of pensions, it will also be necessary to have ad hoc training on emerging issues or on a specific subject on which a decision is to be made by the Pension Committee in the near future or is subject to review by the Local Pension Board. These will also count as credits in maintaining knowledge.

As a measure of training given or knowledge level officers, Committee Members and Board members are expected to have a minimum level of training credits. These are as follows -

Relevant Group	Knowledge Skills - level of attainment	The expected minimum level of credits over the 4 year term of office
Officers	Own sectional and personal development objectives	Own sectional and personal development objectives
Pension Committee and Local Pension Board Members	32 credits	8 credits

These will be measured and monitored annually by Pension Fund Accountant and reported in the Pension Fund Annual Report. Please see the appendix Knowledge and Skills – self assessment of training needs for basis of scoring.

CIPFA Requirements

CIPFA Knowledge & Skills Framework

In January 2010 CIPFA launched technical guidance for Elected Representatives on Pension Committees and non-executives in the public sector within a knowledge and skills framework. The Framework covers six areas of knowledge identified as the core requirements:

- Pensions legislative and governance context;
- Pension accounting and auditing standards;
- Financial services procurement and relationship development;
- Investment performance and risk management;
- Financial markets and products knowledge; and
- Actuarial methods, standards and practice.

The Knowledge and Skills Framework sets the skill set for those responsible for pension scheme financial management and decision making under each of the above areas in relation to understanding and awareness of regulations, workings and risk in managing LGPS Funds.

CIPFA's Code of Practice on Public Sector Pensions Finance, Knowledge and Skills (the "Code of Practice")

First published in October 2011 and redrafted in July 2013, CIPFA's Code of Practice embeds the requirements for the adequacy, acquisition, retention and maintenance of appropriate knowledge and skills required. It recommends (amongst other things) that LGPS administering authorities:

- formally adopt the CIPFA Knowledge and Skills Framework in its knowledge and skills statement;
- ensure the appropriate policies and procedures are put in place to meet the requirements of the Framework (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

The Pension Committee of the London Borough of Havering Pension Fund fully supports the intentions behind CIPFA's Code of Practice and has agreed to formally adopt its principles. This Training Strategy formally sets out the arrangements the London Borough of Havering Pension Fund will take in order to comply with the principles of the CIPFA Knowledge and Skills Code of Practice.

Guidance from the Scheme Advisory Board

General Principles

The Shadow Scheme Advisory Board has taken note of the regulatory requirements and the principles of the Pension Regulator's code of practice and published in January 2015 guidance in a local government context for administering authorities to support them in establishing their local pension board and this includes a section to enable it to help Board members to meet their knowledge and understanding obligations.

Knowledge and understanding must be considered in the light of the role of a Local Pension Board and the London Borough of Havering will make appropriate training available to assist and support Board members in undertaking their role.

Pension Committee Members

Although the CIPFA knowledge and skills framework complements the code of practice that should be adopted by administering authorities there is no legal requirement for knowledge and understanding for members of a Pension Committee. However it will be seen as good practice and governance if members of a Pension Committee use the knowledge and skills requirements set at a similar benchmark as the Local Pension Board.

Degree of Knowledge and Understanding

The role of the Local Pension Board is to assist the administering authority. To fulfil this role, Board members should have sufficient knowledge and understanding to challenge failure to comply with regulations, any other legislation or professional advice relating to the governance and administration of the LGPS and/or statutory guidance or codes of practice.

Board members should understand the regulatory structure of the LGPS and the documentary recording of policies around the administration of the London Borough of Havering Fund in enough detail to know where they are relevant and where it will apply.

Acquiring, Reviewing and Updating Knowledge and Understanding

Board members should commit sufficient time in their learning and development and be aware their responsibilities immediately they take up their position. London Borough of Havering will therefore provide induction training for all new Board members which will also be available to new Committee Members.

Flexibility

It is recognised that a rigid training plan can frustrate knowledge attainment when it is required for a particular purpose or there is a change in pension's law or new responsibilities are required of Board members. Learning programmes will therefore be flexible to deliver the appropriate level of detail required.

Training records and certification

Progress and achievement

Personalised training plans will be used to document and address any knowledge gaps and update areas of learning where required and assist in the acquisition of new areas of knowledge in the event of change.

Progress and achievement will be certificated at least on an annual basis individually to all Committee Members, Board members and officers. These will detail:

- The current assessment of an individual's acquired knowledge;
- Their progress against achieving the credits from other internal/external training or events; and
- All training courses and events attended by them to date.

Risk

Risk Management

The compliance and delivery of this training strategy is at risk in the event of –

- Frequent changes in membership of the Pension Committee or Pension Board
- Poor individual commitment
- Resources not being available
- Poor standards of training
- Inappropriate training plans

These risks will be monitored by officers within the scope of this training strategy and be reported where appropriate.

Budget

Cost

A training budget will be agreed and costs will be met from the Pension Fund.

PENSIONS COMMITTEE MEMBER TRAINING (Election May 2018 – 31 March 2021)

ANNEX D

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
3 July 2018	Peter Worth – Understanding the role of the Pensions Committee	Town Hall	KSF 1	Paid for by OneSource – to be recharged to Havering	Cllr J Crowder (Chair) Cllr M Wallace (Vice-Chair) Cllr R Ramsey Cllr M Goode (also Chair Audit cttee) Cllr R Ower Cllr Mt Sutton (also Vice-Chair Audit cttee)
24 July 2018	Officer - New Councillor Induction • plus Hymans "A brief Guide to the LGPS'	Town Hall	ALL	Officer Time	Cllr R Morgon Cllr R Ower
24 July 2018	Officer - New Councillor Induction – distribution of slides only	Town Hall	ALL	Officer Time	Cllr M Sutton
24 July 2018	Officers - Pension Fund Accounts 17/18 Briefing covered: • Overview of the Pension Fund Accounts	Town Hall	KSF 2	Officer Time	Cllr J Crowder (chair) Cllr M Wallace (vice-chair) Cllr M Goode Cllr R Ower Cllr R Morgon Cllr J Sargent Cllr G O'Sullivan Cllr D Durant Cllr Viddy Persuad (part)

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
20 August 2018	Hymans – Direct Corporate Lending, covered: • What is Direct corporate Lending • Why we are investing in this asset class • How to get exposure • bFinance - covered the manager selection process	Town Hall – Prior to Special Pensions Committee meeting	KSF 3 KSF 5	Part of contract	Cllr J Crowder (chair) Cllr M Wallace (vice-chair) Andy Hampshire (GMB union- employee rep)
15 November 2018	SPS Conferences Local Authority - Pension Fund Investment Strategies: • Topical Issues • Income from Property & Infrastructure- planning for cash flow negativity • Management of Assets – improving cost transparency • • LGPS Perspectives -current issues	Le Meridien Hotel, Picadilly, W1	KSF 5	Free	Cllr S Nunn
11 December 2018	Officer - New Councillor Induction	Library	ALL	Officer Time	Cllr D Durant
11 December 2018	Hymans-ESG :Introductory Training: • Introduction • Regulation • Application and Action • • Next steps: establishing a set of beliefs:	Town Hall – Prior to Pensions Committee meeting	KSF 1 KSF 4 KSF 5	Part of contract	Cllr J Crowder (chair) Cllr M Wallace (vice-chair) Cllr R Ower Cllr S Nunn Cllr D Durant Cllr M Sutton (part)

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
9 July 2019	Officer – New Councillor Induction	Town Hall	ALL	Officer time	Cllr J Frost
11 July 2019	Officer – New Councillor Induction	Town All	ALL	Officer time	Cllr K Darvill
11 July 2019	Hymans - Managing Currency Risk	Town Hall	KSF 3 KSF 4 KSF 5	Hymans Fee	Cllr M Goode Cllr S Nunn Cllr R Ower Cllr J Frost Cllr J Crowder
18 July 2019	Officers - Pension Fund Accounts 18/19 Briefing covered: Overview of the Pension Fund Accounts	Town Hall	KSF 2	Officer Time	Cllr M Goode Cllr R Ower Cllr O Dervish Cllr V Persaud (Audit)
23 July 2019	Hymans - Managing Currency Risk – training slides distributed for non-attendees on 11 July 2019		KSF 4 KSF 5	Officer Time	Slides Distributed to Cllr K Darvill Cllr O Dervish Andy Hampshire (GMB rep)
23 July 2019	Officer – New Councillor Induction	Town Hall – EF14	All	Officer Time	Cllr O Dervish
16 September 2019	Officer –Induction training	LBH Offices	ALL	Officer time	Derek Scott (UNISON Rep)
17 September 2019	Hymans – Multi Asset Credit: • Debt markets overview • What is Multi Asset Credit (MAC) • Absolute Return Bonds (ARB)	Town Hall - As part of the Pensions committee meeting	KSF 3 KSF 4 KSF 5	Hymans Fees	Cllr J Crowder Cllr M Goode Cllr O Dervish Cllr J Frost Cllr R Ower Cllr K Darvill

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
	• Current Yields • Comparison of MAC vs ARB				
24 October 2019	Officer – New Councillor (sub) Induction	LBH Offices	ALL	Officer Time	Cllr L Van den Hende
12 November 2019	A Guide to the LGPS –sent via email	LBH Offices	ALL	Officer Time	Cllr J Crowder Cllr M Goode Cllr O Dervish Cllr J Frost Cllr R Ower Cllr S Nunn Cllr K Darvill 2 nominated substitutes: Cllr R Morgan Cllr L Van den Hende
13 November 2019	CIPFA – Annual Pensions Conference	The London Stock Exchange	ALL	Free Place	Cllr J Crowder
10 December 2019	Hymans Valuation 2019 training presentation	LBH Offices	KSF 6	Hymans Fee	Cllr J Crowder Cllr D O'Flynn (sub) Cllr S Nunn Cllr K Darvill
1 October 2020	Hymans - Introduction to Multi Factor Investment: • Importance of considering Multi Factor exposure • Benefits of Multi Factor diversification	As part of the Pensions committee meeting	KSF 4 KSF 5	Hymans Fee	Cllr J Crowder Cllr S Nunn Cllr M Goode Cllr K Darvill Cllr P Crowder (sub for Cllr Dervish) Cllr J Frost

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
26 November 2020	Hymans/LGIM – Multi Factor Investing • What is multi factor investing • Different factors explained • LGIM Future World offering – explanation of portfolio • Blended factors vs market cap • How the climate tilt is applied	As part of the Pensions committee meeting	KSF 4 KSF 5	Free	Cllr John Crowder Cllr Jason Frost Cllr R Ower Cllr M Goode
26 January 2021	LGA LGPS Update • COVID resilience • Good governance • Responsible investment reporting	Webinar	KSF1 KSF4 KSF5	Free	Cllr Keith Darvill Cllr Ron Ower Derek Scott (UNISON Rep)
26 January 2021	Hymans briefing report circulated to all members: • Tackling Climate Change and related financial risks • TCFD framework awareness	Sent via Email from The Pensions Manager 21.01.21	KSF1 KSF5	Hymans Fee	Cllr John Crowder Cllr Jason Frost Cllr Ron Ower Cllr M Goode Cllr S Nunn Cllr O Dervish Derek Scott Andrew Hampshire
04 February 2021	LAPF Strategic Investment Forum	Webinar	KSF1 KSF3 KSF4 KSF5	Free	Cllr S Nunn
27 April 2021	A Brief Guide to the LGPS 2021 (Hymans Robertson- and link to on line learning tool)	Sent via Email from The Pensions Manager 27/04/21	KSF 1-6	Free	Cllr Frost Cllr Crowder Cllr Darvill Cllr Goode

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
					Cllr Dervish Cllr Ower Cllr Nunn Derek Scott
12 October 21 9 November 21 2 December 21	LGA Fundamentals 3 day event	Virtual	KSF 1-6	Free	Derek Scott
24 November 2022	Hymans Robertson - Climate Risk Workshop • Why climate change matters for pension funds • Introduction to TCFD • Current position • What LCIV has done • Overview of Metrics & Targets	Virtual	KSF 4 KSF 5	Part of the Contract	Cllr Crowder Cllr Ower Derek Scott

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 15 March 2022

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED DECEMBER 2021**
CLT Lead:	**Dave McNamara** **Section 151 Officer**
Report Author and contact details:	***Chrissie Sampson*** ***Pension Fund Accountant (Finance)/ Debbie Ford Pension Fund Manager (Finance)*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	Pension Fund Manager performance is regularly monitored to ensure investment objectives are being met.
Financial summary:	This report comments upon the performance of the Fund for the period ended 31 December 2021

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report provides an overview of: Fund investment performance, Manager Monitoring and any relevant Local Government Pension Scheme (LGPS) updates for the quarter ending **31 December 2021**. Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund grew in value by **3.04%** over this quarter but underperformed both its tactical and strategic benchmark.

The general position of the Fund is considered plus other matters including any current issues as advised by Hymans.

The manager attending the meeting will be:

Royal London Asset Management

Hymans will discuss the fund's performance after which the manager will be invited to join the meeting, make their presentation and answer any questions.

Hymans and Officers will discuss with Members any issues arising from the monitoring of the other managers

RECOMMENDATIONS

That the Committee:

1) Consider Hymans Market Background, Strategic Overview and Manager Performance Report (Appendix A)
2) Consider Hymans Performance Report and views (Appendix B **Exempt)**
3) Receive presentation from the Fund's Bond Manager: Royal London Asset Management (Appendix C – **Exempt**)
4) Consider the quarterly reports sent electronically, provided by each fund manager.
5) Note the analysis of the cash balances

REPORT DETAIL

1. Elements from Hymans report, which are deemed non-confidential can be found in **Appendix A.** Opinions on fund manager performance will remain as exempt and shown in **Appendix B.**

2. Where appropriate topical LGPS news that may affect the Pension Fund will be included.

3. We welcome any feedback and suggestions that will help members gain a better understanding of the reports.

4. BACKGROUND

a. The Committee adopted an updated Investment Strategy Statement (ISS) in July 2020.

b. The objective of the Fund's ISS is to deliver a stable long-term investment return in excess of the expected growth in the Fund's liabilities.

c. The Fund's assets are monitored quarterly to ensure that the long term objective of the ISS is being delivered.

d. We measure returns against tactical and strategic benchmarks:

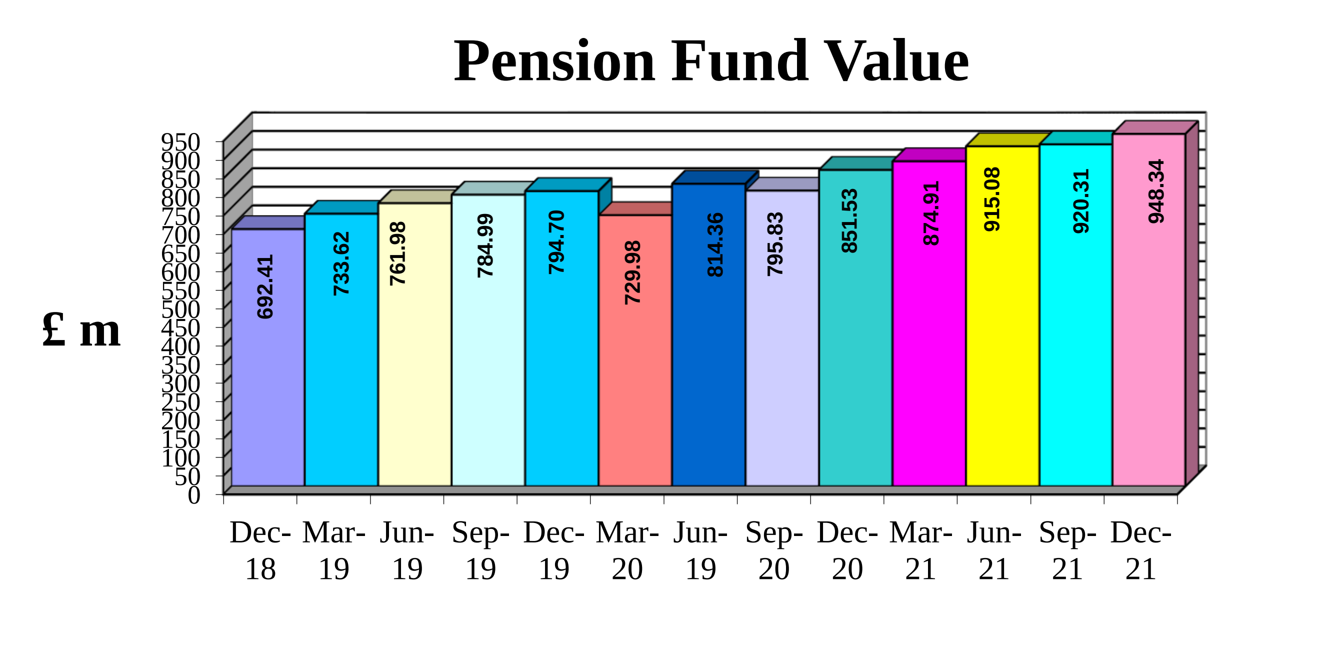
e. **Tactical Benchmark** - Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance.

f. **Strategic Benchmark** - A strategic benchmark has been adopted for the overall Fund of Index Linked Gilts + 1.8% (net of fees) per annum. This is the expected return in excess of the fund's liabilities over the longer term and should lead to an overall improvement in the funding level. The strategic benchmark measures the extent to which the Fund is meeting its longer-term objective of reducing the Fund's deficit.

5. PERFORMANCE

a. As reported by the Fund's custodian Northern Trust, the total Fund value at 31 December 2021 was **£948.33m** compared with £920.31m at the 30 September 2021; an **increase of £28.02m (3.04%)**. This growth can be attributable to an increase in asset values of £35.63m and a contraction in cash of £7.61m. Internally managed cash stands at **£11.654m,** analysis follows in this report.

Chart 1 – Pension Fund Value*



Source: Northern Trust Performance Report
**Quarter ending September 2020 includes a bulk transfer out of £40m*

b. The overall net performance of the Fund against the new **Combined Tactical Benchmark** (the combination of each of the individual manager benchmarks) follows:

Table 1: Tactical Performance

	Quarter to 31.12.21	12 Months to 31.12.21	3 Years to 31.12.21	5 years to 31.12.21
	%	%	%	%
Fund	3.10	10.61	12.15	8.38
Benchmark	3.96	10.66	9.75	6.98
*Difference in return	-0.86	0.05	2.39	1.40

Source: Northern Trust Performance Report
Totals may not sum due to geometric basis of calculation and rounding

c. The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted of Gilts + 1.8% Net of fees). The strategic benchmark return reflects the historic funding approach. Since the strategic benchmark return relates to the expected change in the value of the Fund's liabilities, it is mainly driven by the assumed level of investment return used by the Actuary.

Table 2: Strategic Performance

	Quarter to 31.12.21	12 Months to 31.12.21	3 Years to 31.12.21	5 years to 31.12.21
	%	%	%	%
Fund	3.10	10.61	12.15	8.38
**Benchmark	5.40	5.89	8.95	6.46
*Difference in return	-2.30	4.72	3.19	1.92

Source: Northern Trust Performance Report
*Totals may not sum due to geometric basis of calculation and rounding.

d. Further detail on the Fund's investment performance is detailed in **Appendix A** in the performance report which will be covered by the Investment Adviser (Hymans)

6. CASH POSITION

a. An analysis of the internally managed cash balance of **£11.654m** follows:

Table 3: Cash Analysis

CASH ANALYSIS	**2019/20 31 Mar 20**	**2020/21 31 Mar 21**	**2021/22 31 Dec 21**
	£000's	£000's	£000's
Balance B/F	**-13,698**	**-23,056**	**-15,963**
Benefits Paid	38,880	38,874	28,117
Management costs	1,107	1,420	960
Net Transfer Values	-2,789	14,251	922
Employee/Employer Contributions	-47,508	-48,049	-35,715
Cash from/to Managers/Other Adj.	1,154	723	10,124
Internal Interest	-202	-126	-99
Movement in Year	**-9,358**	**7,093**	**4,309**
Balance C/F	**-23,056**	**-15,963**	**-11,654**

b. Members agreed the updated cash management policy at their committee meeting on 17 September 2019. Main points are: target cash level is £6m within a set parameter of £3m to £8m, income from the bond and property manager can be drawn down when required, any excess cash above the upper £8m parameter maybe considered for reinvestment/rebalancing within the investment strategy.

c. The Committee agreed to increase the allocation to the Funds UK Property Manager (UBS) by £10m to rebalance the property allocation at its meeting on the 14 September 2021. Reflected in the cash position above is the payment made on the 20 October 2021.

7. REPORTING ARRANGEMENTS

a. At each reporting cycle, the Committee will see a different fund manager until members have met them all unless there are performance concerns that demand they be brought back again for further investigation. Fund Manager Reviews are included within Hymans performance report at **Appendix A.**

b. The full version of all the fund manager's quarterly reports are distributed electronically prior to this meeting. Where applicable, quarterly voting information, from each fund manager, detailing the voting history of the fund managers is also included in the manager's quarterly report.

c. The fund manager attending this meeting is the Fund's Bond manager Royal London, their report is attached at **Appendix C (Exempt).**

8. FUND UPDATES:

8.1 Changes made since the last report and forthcoming changes/events:

a. Since the last report, the Fund has continued to fund capital draw down requests: £0.32m Stafford II, £1.13m Stafford IV, £2.18m Permira, £4.74m London Collective Investment Vehicle (LCIV) Renewables Fund and £6.26m for the new Churchill IV fund.

b. The Committee agreed to increase the allocation to the Funds UK Property Manager (UBS) by £10m at its meeting on the 14 September 2021. Payment was made on the 20 October 2021.

c. Members at the Pensions Committee on the 14 September 2021 agreed to invest a 5% allocation to the LCIV Passive Equity Progressive Paris Aligned (PEPPA) Fund. This is to be funded from a drawdown from the Legal & General All World Equity Fund and was settled on the 3 December 2021.

8.2 **LCIV -** is the mandatory asset pool for the Fund and updates will be covered here as follows:

8.2.1 LCIV meetings

a. Shareholder meeting took place on the 7 December 2021.

b. Shareholder General meeting took place 27 January 2022.

c. Meet the manager meeting - Hermes EOS – LCIV Stewardship partner to assist with voting and engagement (16 Dec 21).

d. Business update meetings (currently held virtually) – take place monthly. Since the last report, meetings were held on the 18 November 2021, 16 December 2021, 20 January 2022 and 17 February 2022.

e. Each meeting includes an update from Chief Officers covering current fund offerings, fund performance; fund updates (including those funds for which enhanced monitoring is in place) and the pipeline for new fund launches. In addition, relevant topical issues are included as appropriate. Highlights as follows in this report.

f. **Five Year Strategy Roadmap (Nov meeting) -** split over three phases covering Growth (2021 -2023), Consolidation (2023-2024) and Liability Focus (2024-2025).

g. **Medium Term activity** to focus on product roadmap, Net Zero Strategy and Property mandate(s).

h. Jeff Houston –Head of Pensions LGA attended the meeting on the 16 December 2021 providing updates on LGPS pooling.

i. **Assessment of Value (AOV) report (Dec meeting) -** targeted for completion 31 December 2021.

j. **LCIV Climate Analytics Reporting Service (Jan 22 meeting)–** Scope of this report covers Listed Equities and Corporate Fixed income mandates and provides analysis on Climate Impact and Risk Metrics. Pilot completed for one LGPS client with the service soon to be available to all clients to support Taskforce for Climate Related Disclosure (TCFD) reporting. There will be a charge for this service and the Fund can give this consideration once the details are available.

k. **New/Changes to Sub Fund Launches:**

- New: Sterling Credit Fund – Stage 1 (Client demand). Survey was issued in December to ascertain client demand. The Seed Investor Group (SIG) have been meeting since 26 January 2021.This is not an ongoing part of our strategy as the Fund is selling down its credit allocation so officers are not involved in the SIG.
- New: LCIV Alternative Credit Fund – Stage 5 (Fund Preparation). Fund created to support fallout from future MAC Fund Restructure. FCA filing complete with anticipated launch 31 Jan 2022.
- New: Property – Stage 1 (Client Demand) – Property workshop held on 31 January 2022. First SIG meeting scheduled for 22 March 2022. Officers will not be involved in the SIG as the Fund is currently fully allocated to its Property target asset allocation but would consider a lift and shift of an existing manager if the commercial terms were favourable.
- Change: Global Equity Core Fund – Name change to Global Equity Quality fund. Objective moved to generate total return over a long-term period and has had ESG enhancement.
- Change: LCIV MAC Fund –Fund restructured with an additional manager appointed to co-manage with CQS – expected completion early Q1 22.
- Change: LCIV Global Bond Fund – Fund enhancements being made by the integration of ESG credentials

l. **LCIV Staffing Updates**

- LCIV have appointed a Senior Portfolio Manager Private Markets – Christopher Osbourne started 14 December 2021
- Head of Responsible Investment on maternity leave from November 2021.
- Two investment analysts have accepted offers starting in Feb 2022.

m. **LCIV Board Appointments**

- Non –Executive Directors (NED) - Yvette Lloyd and Mark Laidlaw will join the Board in January 2022
- Nominated Shareholder NED - Cllr Mason (Leader of London Borough of Ealing) appointed in December 2021.

8.3 LGPS GENERAL UPDATES:

8.3.1 GAD S13 Report

a. The Department of Levelling Up, Housing and Communities (DLUHC) have appointed the Government Actuary Department (GAD) 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 (LGPS) in England and Wales.

b. Published on the 16 December 2021, this is second formal section 13 report based on the results of fund valuations as at 31 March 2019. The first formal report applied to fund valuations as at 31 March 2016.

a. Draft results were originally reported to the Pensions Committee at its 14 September 20021 meeting. The final version of the Section 13 2019 report, shows that Havering received three 'white flags', the details of which are covered in a separate report elsewhere on the agenda.

8.3.2 Update on United Nations (UN) letter about investments in the Israeli settlement economy

a. The Committee may be aware of a number of approaches, letters and Freedom of Information requests made to members and the Fund encouraging engagement with the companies appearing on the database of business enterprises involved in certain specified activities related to the Israeli settlements in the Occupied Palestinian Territory (OPT). The Database identifies 112 business enterprises involved in one or more activities that raised particular human rights concerns in a UN-led investigation.

b. The Fund does not own any investments in the companies listed on the UN register referred to - there is however, a very small exposure through investments held indirectly in pooled investments or passive mandates (c0.39% as at 30 Sept 21) where ownership of the underlying assets reside with the asset manager. c0.24% of these investments is held via Baillie Gifford on the LCIV platform. LCIV are engaging with Baillie Gifford who have provided feedback that the company involved will be introducing a formal Human Rights Policy and have also put in place structured dialog to incorporate views from key stakeholders and Baillie Gifford/LCIV will monitor the development of the Human Rights policy.

c. Pension Funds approached the Scheme Advisory Board (SAB) for assistance in this matter.

d. The Chair of the SAB and representatives from Local Authority Pension Fund Forum (LAPFF) of which this Fund and the LCIV are members, together with the SAB Secretary held a call with United Nations (UN) Special Rapporteur on the Palestinian Territories on 11th January 2021 to discuss his letter to funds. The discussion was productive and it was agreed to follow up with another call in a month or so. It was made clear that LGPS funds' primary objective in investment is to ensure pensions are paid but they do take human rights issues seriously in their decisions and through LAPFF are actively engaging with many of the companies listed on the database. In that respect the UN Special Rapporteur will provide further information on the database in particular the process for removing companies from it.

8.3.3 DLUHC publishes Levelling Up whitepaper

a. On the 2 February 2022 the government published the Levelling Up whitepaper, which includes references to LGPS funds having plans for up to 5% of assets to be allocated to projects that support local areas. The SAB understand that in this context local refers to UK rather than local to a particular Fund and that there will be no mandating beyond the requirement to have a plan and any investment will need to meet the Fund's return requirement. Further details will emerge over the period up to an expected summer consultation, which is understood to also include the outstanding climate risk and reporting regulations and the pooling guidance.

IMPLICATIONS AND RISKS

Financial implications and risks:

Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met and consequently minimise any cost to the General Fund and employers in the Fund

Legal implications and risks:

None arising directly from consideration of the content of the Report.

Human Resources implications and risks:

There are no immediate HR implications.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;

(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;

(iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

An EqEIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

BACKGROUND PAPERS

None

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London Borough of Havering Pension Fund

Q4 2021 Investment Monitoring Report

Simon Jones – Partner
Mark Tighe – Associate Investment Consultant
Meera Devlia – Investment Analyst

HYMANS ROBERTSON

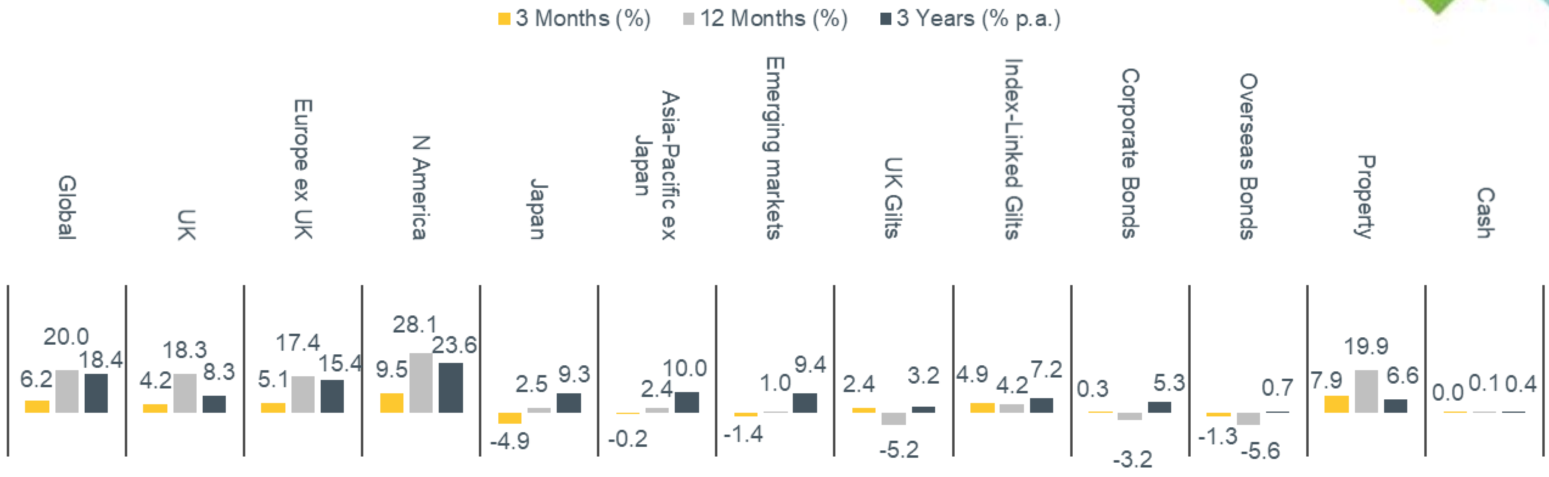
Economic momentum has slowed as rising COVID cases have led to a modest re-imposition of restrictions and increasing social distancing. This is expected to weigh on growth in Q4 2021 and Q1 2022, but we still anticipate above-trend growth in 2022.

There are signs that the strain on supply chains is easing, though the overall rate of price increases remains high. UK headline CPI inflation rose to 5.1% year-on-year in November whilst the equivalent US and eurozone measures rose to 6.8% and 4.9% respectively. In response, the Federal Open Markets Committee (FOMC) announced plans to accelerate the tapering of asset purchases, with the median FOMC member forecasting three rate hikes next year. The Bank of England raised rates to 0.25% p.a., with further rate hikes expected in 2022.

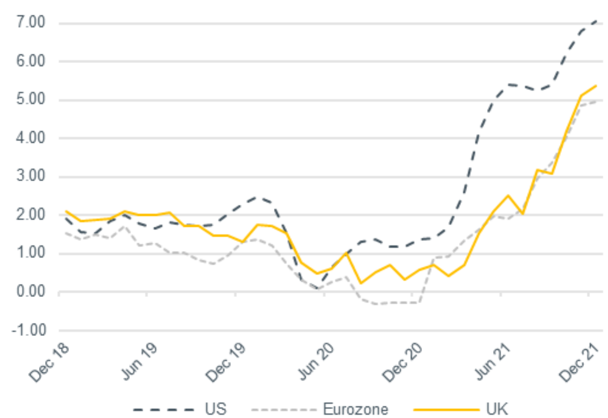
Trade-weighted sterling rose 1.7% through the quarter as markets adjusted for the earlier than expected rate rises. The US dollar rose 0.6% in trade-weighted terms, perhaps reflecting both safe haven appeal and slightly more hawkish messaging from the Federal Reserve.

US and UK bond yield curves flattened with short-term yields rising to reflect expectations of further interest rate hikes. Long-term yields remained largely unchanged. UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, ended the quarter a little higher at 3.9% p.a. whilst longer term implied inflation fell. US 10-year implied inflation rose 0.2% p.a. to 2.6% p.a

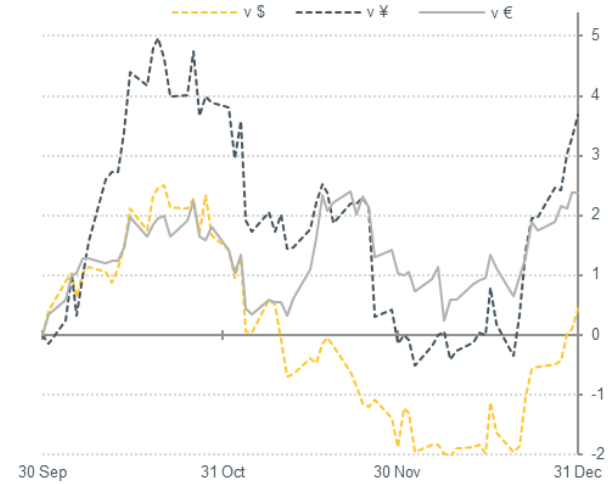
Historic returns for world markets [1]



Annual CPI Inflation (% p.a.)



Sterling trend chart (% change)



Source: DataStream. [1] Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property; UK Interbank 7 Day.

HYMANS ROBERTSON

Market Background

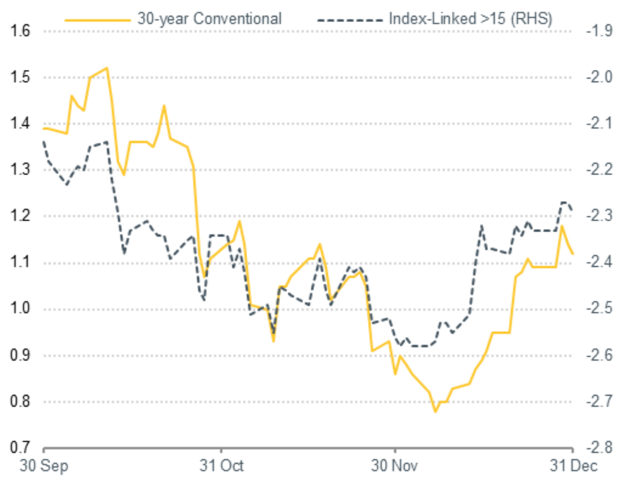
Global investment-grade spreads increased by 0.1% p.a. to 1.0% p.a., whilst speculative-grade spreads ended the quarter broadly in line with end-September levels at 3.7% p.a

Despite falling in November over Omicron variant concerns, global equities produced a total return of 7.0% in Q4, propelled higher by strong earnings growth. Sterling strength weighed on returns to unhedged UK investors delivering a 6.2% return in sterling terms. All sectors produced positive returns except telecoms, on an absolute basis. Outside telecoms, energy and financials were the main underperformers, weighed on by demand expectations and flatter yield curves, respectively. Technology was the notable outperformer, bolstered by strong earnings releases and the prospect of further lockdowns spurring demand for tech.

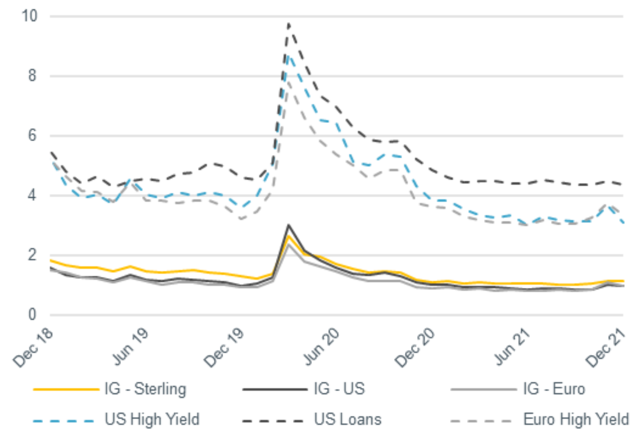
North America posted double digit returns on the back of tech outperformance. Japan, which reintroduced strict border restrictions shortly after the Omicron variant was made public, is at the bottom of the regional performance rankings over the quarter. Asian and emerging markets also continued their underperformance versus developed markets.

UK Monthly Property capital value index rose 13.9% over the 12 months to end December due to a buoyant industrial sector, where capital values have risen 32.5%. Retail capital values have risen by 6.9% over 12 months. There has been a flattening of the declines experienced in the office sector, delivering marginally positive capital growth of 0.1% over 2021. Total return on the index, including income, was 19.9% in the 12 months to end December.

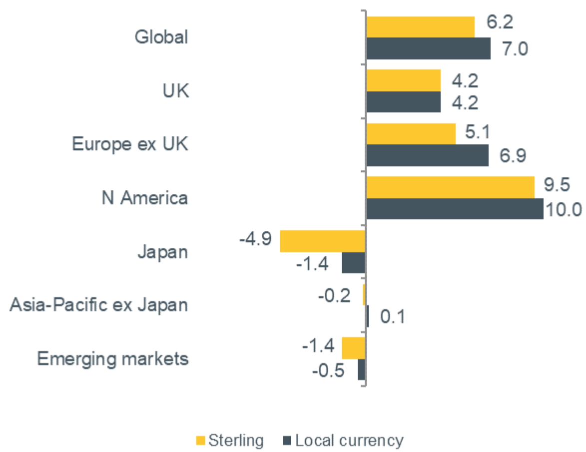
Gilt yields chart (% p.a.)



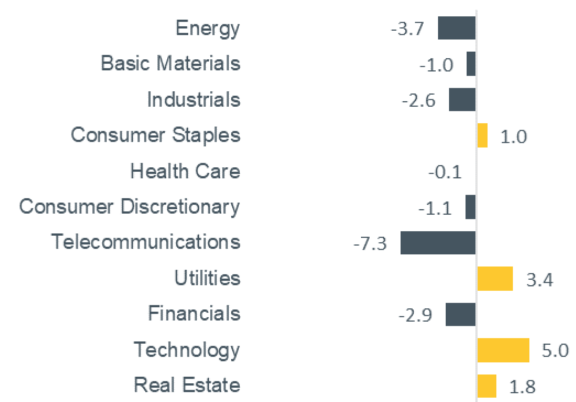
Investment and speculative grade credit spreads (% p.a.)



Regional equity returns [1]



Global equity sector returns (%) [2]

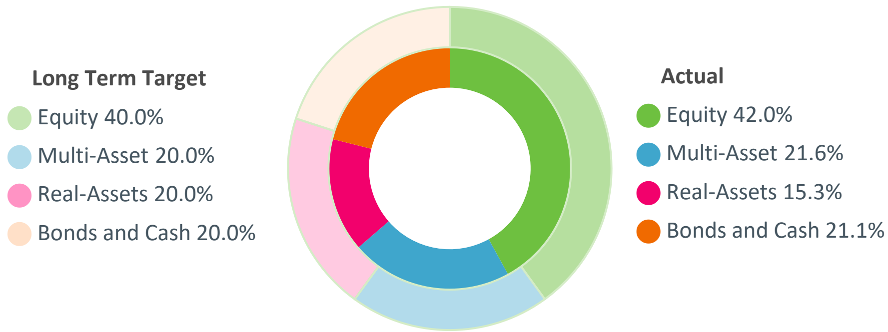


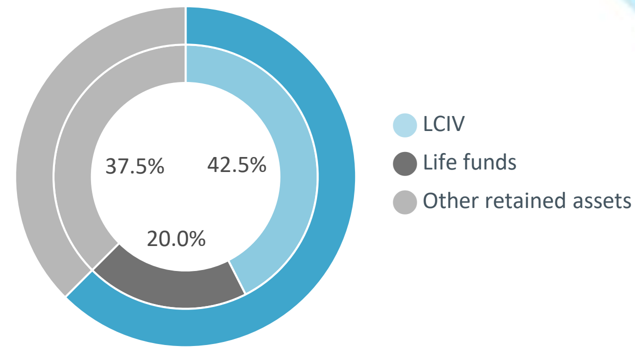
Source: DataStream, Barings, ICE [1] FTSE All World Indices. Commentary compares regional equity returns in local currency. [2] Returns shown in Sterling terms and relative to FTSE All World. FTSE indices migrated to a new ICB structure in Q1 2021.

HYMANS ROBERTSON

- The Fund's investment approach is implemented through the London Common Investment Vehicle ("LCIV"), and retained assets including life funds (with fee structures aligned with LCIV).
- The charts right summarise the approach agreed for the implementation of the Fund's longer-term strategy. We have indicated ongoing governance responsibilities in blue for LCIV and grey for the Committee.
- The target allocation to LCIV and life funds totals 62.5% of Fund assets. Other retained assets will be delivered through external managers, with the position reviewed periodically.
- Further commitments were made to infrastructure and private debt in 2021 in order to retain exposure to these asset classes as the existing investments mature and begin repaying capital to investors. The new commitments will continue 'ramping up' and calling more capital in 2022.

Asset Allocation





Long Term Strategic Target

Asset class	Long term target	LCIV		Life funds		Other retained assets	
		Manager(s)	%	Manager(s)	%	Manager(s)	%
Equity	40.0	Baillie Gifford, SSGA	20.0	LGIM	20.0		
Multi-Asset	20.0	Baillie Gifford, Ruffer	20.0				
Property	10.0					UBS, CBRE	10.0
Infrastructure	10.0	Various	2.5			JP Morgan, Stafford	7.5
Private Debt	7.5					Permira, Churchill	7.5
Other bonds	12.5					RLAM	12.5
Total	**100.0**	**-**	**42.5**	**-**	**20.0**	**-**	**37.5**

Current Investment Implementation

- The total value of the Fund's assets rose by c. £28.1m over the quarter to c. £948.3m as at 31 December 2021. Despite equities falling in November 2021 due to the Omicron variant concerns, global equities produced a total return of 7.0% over the quarter. Furthermore, capital values have continued to grow in the property market alongside positive rental growth.

- The Fund remains underweight to JP Morgan and underweight to infrastructure as a whole. An additional £12m has been committed to JP Morgan (to be funded from the LCIV Global Alpha Growth Paris Aligned fund) and is currently awaiting drawdown.

- As agreed by the Committee, over the quarter an additional £10m investment was made to the UBS fund, funded from internally held cash to bring the allocation back up towards target.

The Fund paid the following capital calls during the quarter:

- c.£4.2m to the LCIV Renewable Energy Infrastructure Fund funded from the LCIV Diversified Growth Fund
- c.£3.8m to Churchill Senior Loan Fund IV funded from existing cash and the RLAM corporate bond mandate.
- c.£0.9m to Permira funded from existing cash.
- c.£0.5m to Stafford SISF II funded from existing cash.
- c.£0.3m to Stafford SISF IV funded from existing cash.

Asset Allocation

Manager		Valuation (£m) Q3 2021	Valuation (£m) Q4 2021	Actual Proportion	Benchmark	Relative
Equity		**387.0**	**398.3**	**42.0%**	**40.0%**	**2.0%**
LGIM Global Equity	LCIV aligned	77.8	35.8	3.8%	5.0%	-1.2%
LGIM Emerging Markets	LCIV aligned	39.4	38.8	4.1%	5.0%	-0.9%
LGIM Future World Fund	LCIV aligned	89.8	96.6	10.2%	10.0%	0.2%
LCIV Global Alpha Growth Paris Aligned Fund	LCIV	180.1	179.7	19.0%	15.0%	4.0%
LCIV PEPPA Passive Equity	LCIV	0.0	47.3	5.0%	5.0%	0.0%
Multi-Asset		**204.9**	**205.3**	**21.6%**	**20.0%**	**1.6%**
LCIV Absolute Return Fund	LCIV	112.6	114.3	12.1%	12.5%	-0.4%
LCIV Diversified Growth Fund	LCIV	92.3	91.0	9.6%	7.5%	2.1%
Real-Assets		**127.4**	**144.8**	**15.3%**	**20.0%**	**-4.7%**
UBS Property	Retained	44.3	57.5	6.1%	6.0%	0.1%
CBRE	Retained	29.7	30.1	3.2%	4.0%	-0.8%
JP Morgan	Retained	23.4	23.3	2.5%	4.0%	-1.5%
Stafford Capital Global Infrastructure SISF II	Retained	22.0	21.7	2.8%	3.5%	-0.7%
Stafford Capital Global Infrastructure SISF IV	Retained	6.2	5.3			
LCIV Renewable Energy Infrastructure Fund	LCIV	1.9	6.9	0.7%	2.5%	-1.8%
Bonds and Cash		**201.0**	**200.0**	**21.1%**	**20.0%**	**1.1%**
RLAM Index Linked Gilts	Retained	41.3	43.5	4.6%	5.0%	-0.4%
RLAM Multi-Asset Credit	Retained	63.8	64.1	6.8%	7.5%	-0.7%
RLAM Corporate Bonds	Retained	32.2	28.1	3.0%	0.0%	3.0%
Churchill Senior Loan Fund II	Retained	20.1	18.6	2.0%	3.0%	-1.0%
Churchill Senior Loan Fund IV	Retained	0.0	5.3	0.6%	0.0%	0.6%
Permira	Retained	23.9	26.4	2.8%	4.5%	-1.7%
Cash at Bank	Retained	20.7	13.1	1.4%	0.0%	1.4%
Currency Hedging P/L	Retained	-1.0	0.8	0.1%	0.0%	0.1%
Total Fund		**920.3**	**948.3**	**100.0%**	**100.0%**	

Source: Northern Trust, Investment Managers

Asset Allocation

- The chart right illustrates the underlying asset allocation of the Fund, i.e. taking account of the underlying holdings in the multi-asset funds on a ‘look through’ basis.
- The Fund’s overall allocation to equities increased over the quarter to c.51.3% as at 31 December 2021 (c.50.2% at 30 September 2021) – this was driven by the strong equity performance of the quarter.
- The allocation to private debt increased to c.5.3% as at 31 December 2021 (c.4.8% as at 30 September 2021) – this was due to commitment to the Churchill Senior Loan Fund IV.
- The allocation to real assets continued to increase to c.17.9% as at 31 December 2021 (c.16.7% as at 30 September 2021) – this movement was driven by capital calls from the LCIV Renewable Energy Infrastructure fund and Stafford Infrastructure fund and over the quarter.

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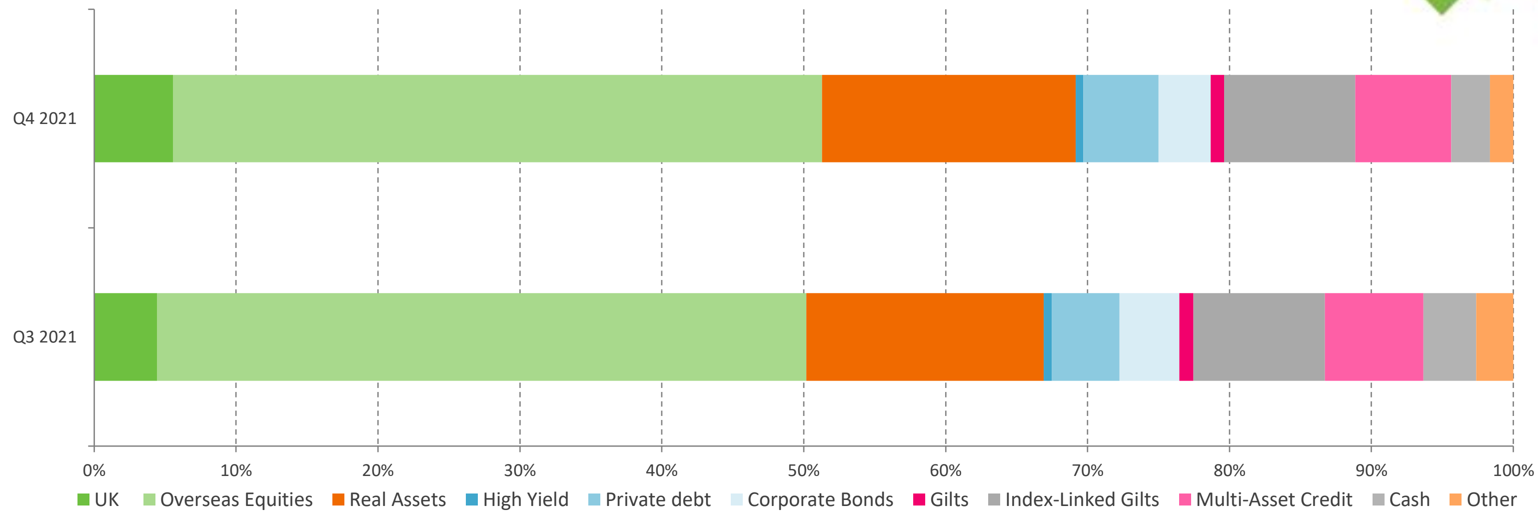
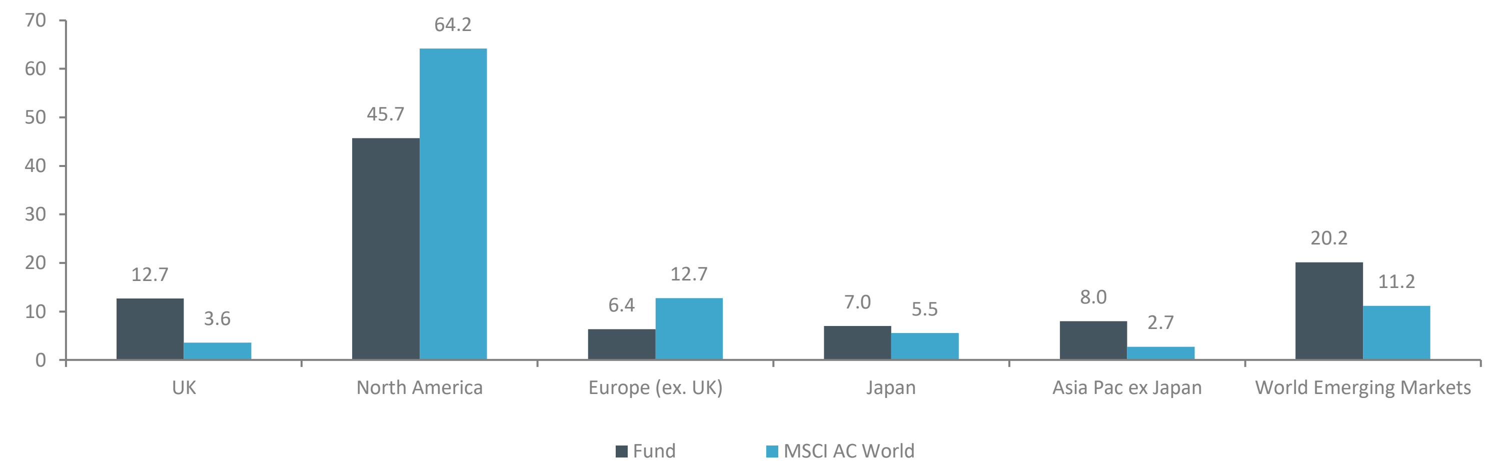
Asset Class Exposures



Regional Equity Allocation



Source: Investment Managers, Datastream

- Please note the early stage performance of the Fund's private market investments can be very volatile using this method of performance measurement. This is to be expected and should not provide cause for concern.
- The LGIM mandates continued to broadly track their respective benchmarks over the quarter, whilst mixed returns were observed across the other mandates.
- In terms of growth mandates, the LCIV Global Alpha Growth Paris Aligned fund has significantly underperformed its benchmark. The Global Alpha fund has a bias towards stocks expected to demonstrate rapid levels of 'growth' and a bias away from stocks perceived to be good 'value' from a fundamental perspective. 'Value' significantly outperformed 'growth' during the quarter which was detrimental to relative performance. In addition, the fund is overweight, compared to benchmark, to Chinese equities which continued to struggle over the quarter.
- Please note that all asset performance is in GBP terms and does not make an allowance for currency fluctuations. The total Fund performance includes the impact of the Russell currency overlay mandate.
- Please note the separate slide for further detail on the Russell mandate, along with asset performance excluding the impact of currency fluctuations.

Manager Performance

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Growth												
LGIM Global Equity	6.2	6.2	**0.0**	19.9	20.0	**-0.1**	18.3	18.3	**0.0**	13.3	13.3	**0.0**
LGIM Emerging Markets	-1.4	-1.4	**0.0**	0.9	1.0	**-0.1**	8.0	8.2	**-0.2**	8.0	8.2	**-0.2**
LGIM Future World Fund	7.7	7.7	**0.0**	-	-	**-**	-	-	**-**	4.0	4.1	**0.0**
LCIV Global Alpha Growth Paris Aligned Fund	-0.2	7.3	**-7.0**	8.1	21.3	**-10.9**	22.4	18.7	**3.2**	16.0	13.5	**2.2**
LCIV Absolute Return Fund	1.5	1.0	**0.5**	10.3	4.1	**6.0**	9.7	4.5	**5.0**	5.4	4.7	**0.7**
LCIV Diversified Growth Fund	3.8	0.9	**2.9**	9.3	3.6	**5.5**	8.0	3.9	**3.9**	5.0	4.0	**1.0**
Income												
UBS Property	6.9	7.5	**-0.6**	19.3	19.2	**0.1**	6.9	6.3	**0.6**	7.0	7.9	**-0.8**
CBRE	1.4	3.5	**-2.0**	12.6	10.4	**2.0**	6.4	7.2	**-0.8**	6.4	7.2	**-0.8**
JP Morgan	3.8	3.5	**0.3**	9.1	10.4	**-1.2**	7.4	7.2	**0.1**	7.4	7.2	**0.1**
Stafford Capital Global Infrastructure SISF II	-1.3	3.5	**-4.7**	3.8	10.4	**-6.0**	5.1	7.2	**-2.0**	5.6	7.3	**-1.7**
Stafford Capital Global Infrastructure SISF IV	-20.6	3.5	**-23.3**	10.9	8.9	**1.8**	-	-	**-**	10.9	8.9	**1.8**
LCIV Renewable Energy Infrastructure Fund	6.0	3.6	**2.4**	-	-	**-**	-	-	**-**	5.4	5.6	**-0.2**
Protection												
RLAM Index Linked Gilts	5.0	5.4	**-0.4**	4.2	4.2	**0.0**	-	-	**-**	8.3	8.3	**0.0**
RLAM Multi-Asset Credit	0.6	0.4	**0.2**	5.1	2.6	**2.4**	9.4	8.3	**1.0**	8.3	7.5	**0.8**
RLAM Corporate Bonds	2.5	1.8	**0.6**	-3.4	-5.3	**2.0**	-	-	**-**	7.5	6.8	**0.7**
Churchill Senior Loan Fund II	0.7	1.0	**-0.3**	7.2	4.1	**3.0**	3.1	4.5	**-1.4**	3.1	4.5	**-1.4**
Permira	1.6	1.0	**0.6**	6.8	4.1	**2.6**	-	-	**-**	3.0	4.4	**-1.4**
Total	3.1	4.0	**-0.8**	10.6	10.7	**-0.1**	12.2	9.8	**2.2**	8.3	-	**-**

Source: Northern Trust, investment managers. Please note that benchmark performance for Baillie Gifford DGF and Ruffer Absolute Return funds is inclusive of outperformance targets. In addition, longer term performance for Baillie Gifford Global Equity, Baillie Gifford DGF and Ruffer Absolute Return funds is inclusive of performance prior to their transfer in to the London CIV. LGIM Global and Fundamental Equity mandates were managed by SSGA prior to November 2017 and we have retained the performance history for these allocations. Performance figures for CBRE, Stafford ad JP Morgan has been taken from the managers rather than Northern Trust. The Fund performance figure includes the effect of the currency hedging mandate managed by Russell..

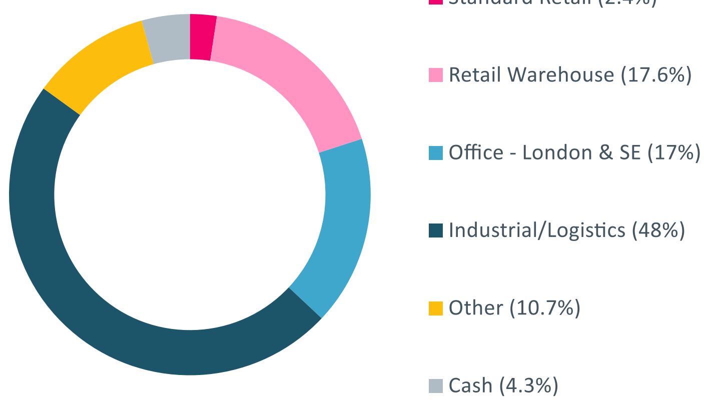
UBS Triton Property Fund

- The objective of the fund is to deliver returns broadly in line with a peer group of other UK property funds.
- The fund invests directly in UK properties with returns generated through the collection of rental income and growth in both rental levels and capital values.
- The Triton fund has continued to increase the level of rent collection. Rent collection remained strong over Q4 2021 at 96% and 93% over the last 12 months of the year.

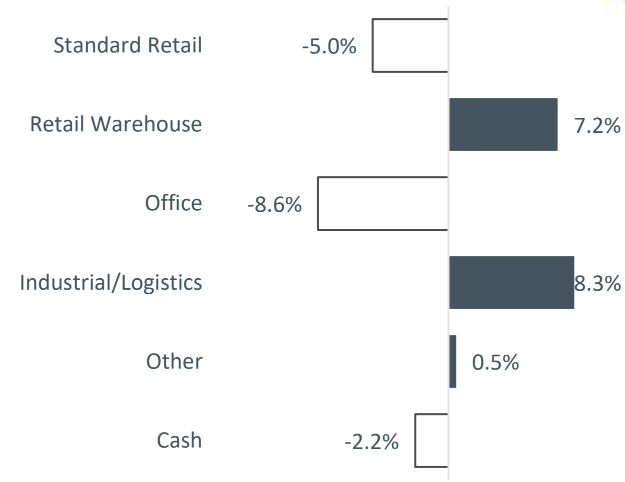
CBRE Global Alpha Fund

- The objective of the fund is to Outperform UK CPI inflation by 5% per annum (net of fees).
- The Global Alpha Fund is a global mandate and invests across a range of regions (as displayed in the chart, far right) rather than just the UK – as is the case with the UBS fund.

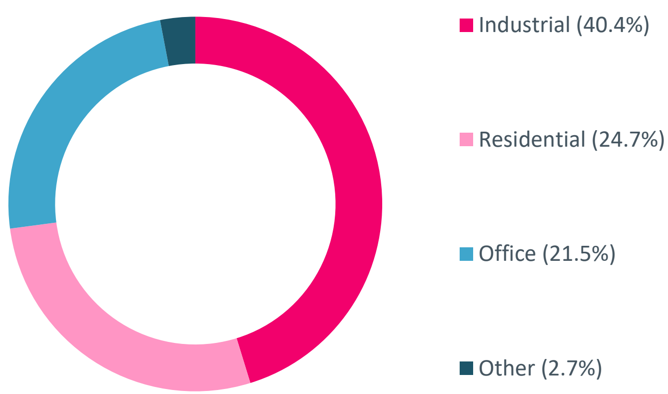
UBS Sector Allocation



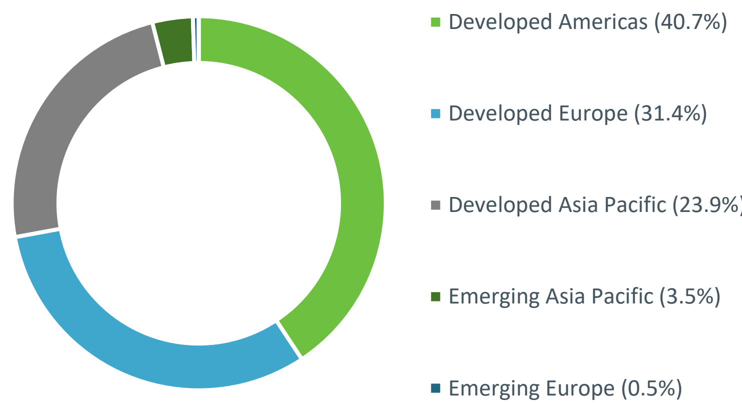
UBS Sector Allocation Relative to Benchmark



CBRE Sector Allocation*



CBRE Regional Allocation*



Source: Northern Trust, UBS, CBRE
**as at 30 September 2021 (latest available)*

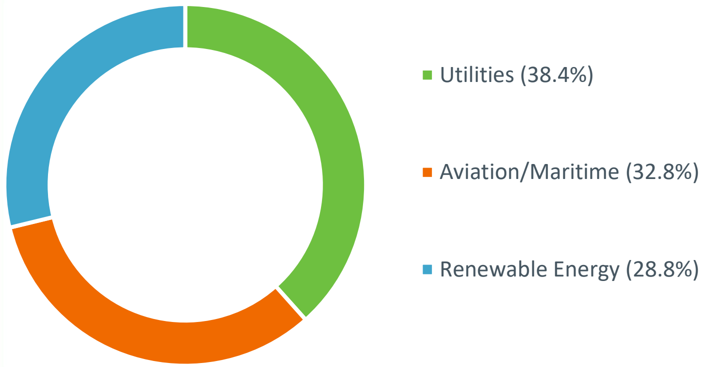
JP Morgan Infrastructure Fund

- The objective of the fund is to Outperform UK CPI inflation by 5% per annum (net of fees).
- Over the quarter, the fund returned a positive 3.8%, outperforming its benchmark of UK CPI + 5%. This outperformance can be attributed to the fund's allocation to utilities, including renewables, which performed well over the period as utility prices rose over the last quarter of the year.

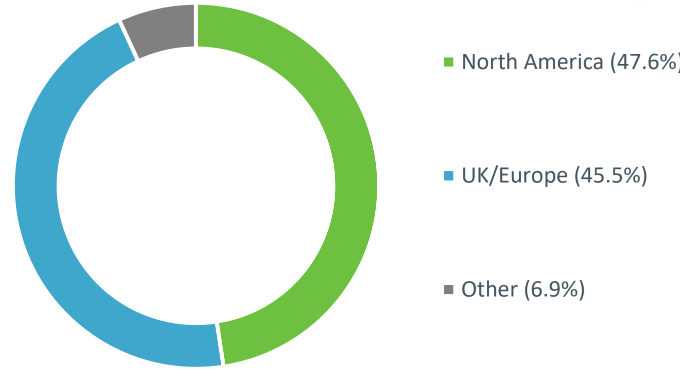
LCIV Renewable Energy Infrastructure Fund

- The objective of the fund is to Outperform UK CPI inflation by 5% per annum (net of fees).
- As a fund of funds, the table summarises the status of the LCIV Renewable Infrastructure Fund in terms of its commitments, their weights in the portfolio and their respective capital amounts called.
- Please note the percentage amount invested is based on invested data as at 30 June 2021.

JP Morgan Sector Allocation*



JP Morgan Regional Allocation*



LCIV Renewable Infrastructure Fund Commitments**

Fund	Transaction Type	Weight	Commitment (£m)	Called (£m)	Invested (%)	Capacity
BlackRock Global Renewable Power III	Primary	14.7%	100	17.8	10.9%	Closed
Quinbrook Renewable Impact Fund	Primary	14.7%	100	17.4	6.4%	£350m + Final Close December 2022
Stonepeak Global Renewables Fund	Primary	24.9%	170	8.6	4.7%	Closed
Foresight European Infrastructure Partners	Primary	20.5%	140	24.0	17.3%	Closed
BlackRock UK Renewable Income Fund	Secondary	14.5%	99.3	99.3	100%	Closed
Cash	-	10.7%	73.2	-	-	-
Total		100%	682.5			

Source: Northern Trust, JP Morgan, LCIV
**as at 30 September 2021 (latest available)*
*** as at 3 November 2021 (latest available)*

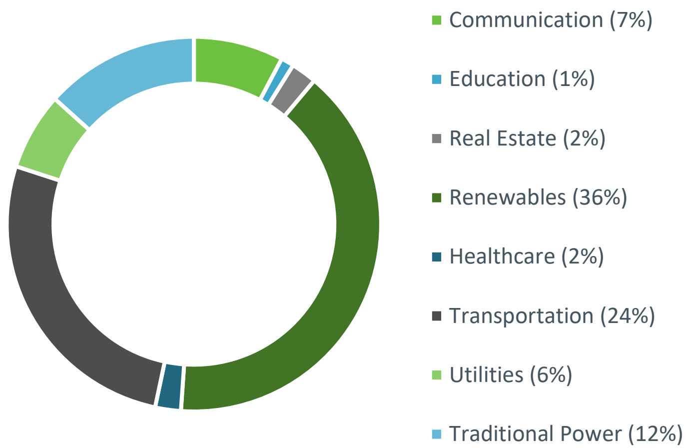
Stafford Capital Global Infrastructure SISF II

- The objective of the fund is to Outperform UK CPI inflation by 5% per annum (net of fees).
- Over the quarter, the fund returned a negative 1.3%, underperforming its benchmark of UK CPI + 5% - in part driven by the fund's allocation to the communication sector and factors such as the delays in the roll-out of 5G.
- The fund is comprised of 22 funds, 13 co-investments and 311 underlying assets.

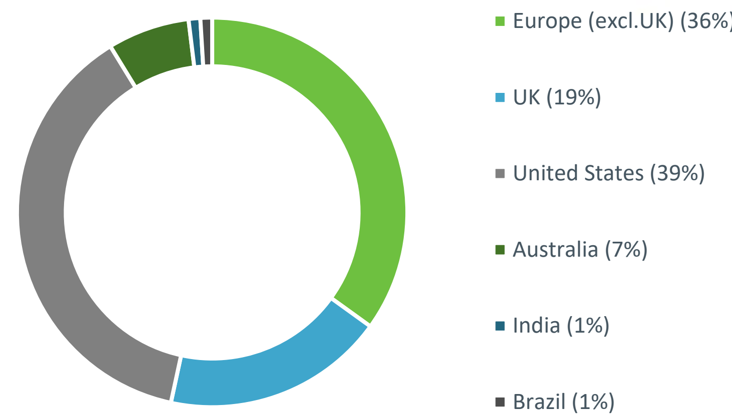
Stafford Capital Global Infrastructure SISF IV

- The objective of the fund is to Outperform UK CPI inflation by 5% per annum (net of fees).
- Over the quarter, the fund returned a negative 20.6%, significantly underperforming the performance benchmark of UK CPI + 5%. However, the early stage performance of the private market fund can be very volatile using the method utilised for performance measurement. This is to be expected and should not provide cause for concern.
- The fund is comprised of 6 investments and 121 underlying assets.

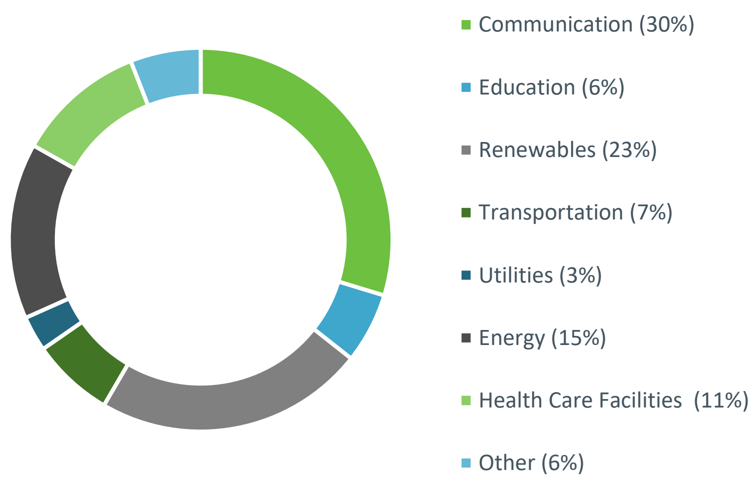
Stafford Capital Global Infrastructure SISF II Sector Allocation*



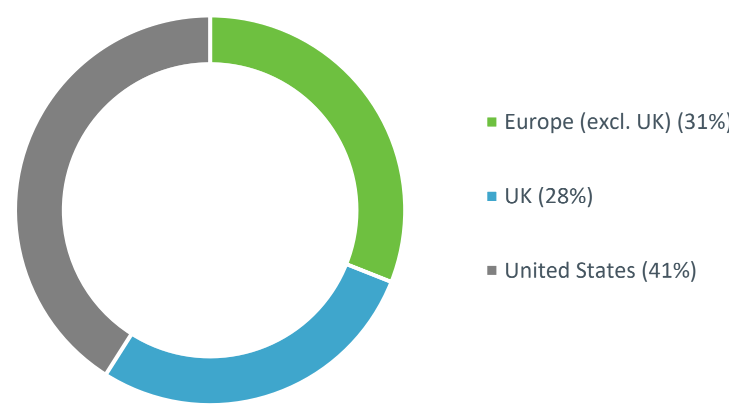
Stafford Capital Global Infrastructure SISF II Regional Allocation*



Stafford Capital Global Infrastructure SISF IV Sector Allocation*



Stafford Capital Global Infrastructure SISF IV Regional Allocation*



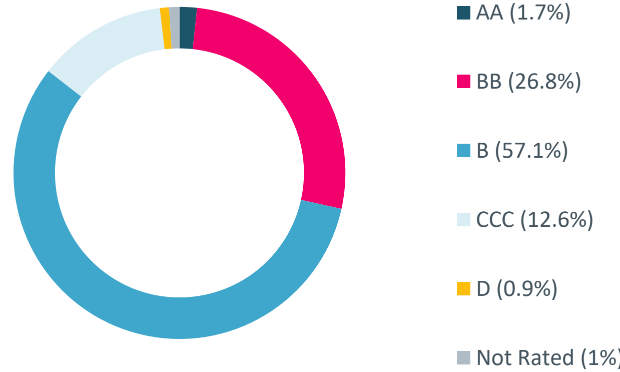
Source: Northern Trust, Stafford Capital
**as at 30 September 2021 (latest available)*

- Royal London Asset Management (RLAM) was appointed in February 2005 to manage the Fund's bond mandate.
- RLAM now manage two separate portfolios: the existing portfolio consisting of index linked gilts and with the addition of MAC; and a separate corporate bond portfolio which is being sold down to fund strategic changes.
- The chart below right compares the credit rating breakdown of the multi-asset credit and corporate bond portfolios at the end of the quarter.
- The strategic allocation to corporate bonds is now 0%, with allocations to index linked gilts and multi-asset credit 5% and 7.5% respectively.
- Over the quarter, despite credit spreads widening, the MAC portfolio returned positively. This is primarily due to RLAM increasing their short duration exposure early in the quarter amidst expectations of increased volatility.
- Real yields continued to fall over the quarter meaning the index linked gilts mandate returned positively, however slightly underperformed its respective benchmark.
- Since inception, all portfolios outperform or perform in line with their respective benchmarks.

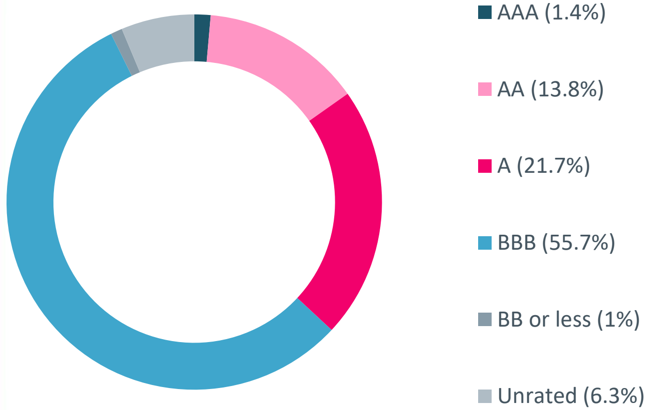
RLAM Fund Performance

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
RLAM Multi-Asset Credit	0.6	5.1	9.4	8.3
Benchmark	0.4	2.6	8.3	7.5
Relative	0.2	2.4	1.0	0.8
RLAM Index Linked Gilts	5.0	4.2	n/a	8.3
Benchmark	5.4	4.2	n/a	8.3
Relative	-0.4	0.0	n/a	0.0
RLAM Corporate Bonds	2.5	-3.4	n/a	7.5
Benchmark	1.8	-5.3	n/a	6.8
Relative	0.6	2.0	n/a	0.7

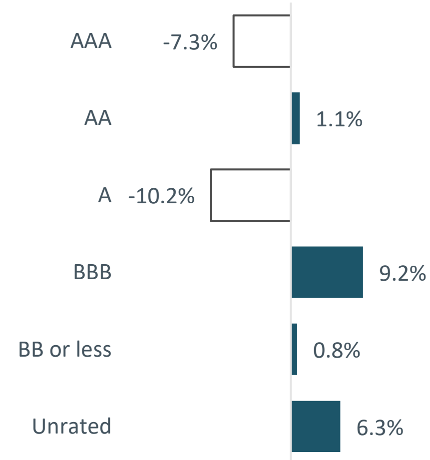
Credit Allocation (MAC)



Credit Allocation (Corporate Bonds)



Credit Allocation Relative to Benchmark (Corporate Bonds)



MAC and ILGs Benchmark: FTSE Index Linked over 5 Year 50%, ICE BAML BB-BBB Index 25%, Credit Suisse US Leveraged Loan GBP Hedged 25%.
Corporate Bonds Benchmark: iBoxx Sterling Non-Gilt Over 10 year Index.

Source: Northern Trust, RLAM

Russell Currency Hedging

- Russell Investments have been appointed to manage the Fund's currency overlay mandate.
- The current policy is to hedge non-sterling exposures in the Fund's private markets mandates. Currency exposure in equity mandates is retained.
- At present, 100% of the exposure to USD, EUR and AUD from the private market investments is hedged within any residual currency exposure retained on a de-minimis basis.
- The volatility of returns (measured as the standard deviation of quarterly returns since inception) is 5.5% to date when the impact of currency fluctuations is included and only 5.1% when currency movements are stripped out by the Russell currency overlay mandate. This continues to indicate that the Russell mandate is reducing overall volatility and increasing the predictability of returns, as intended.

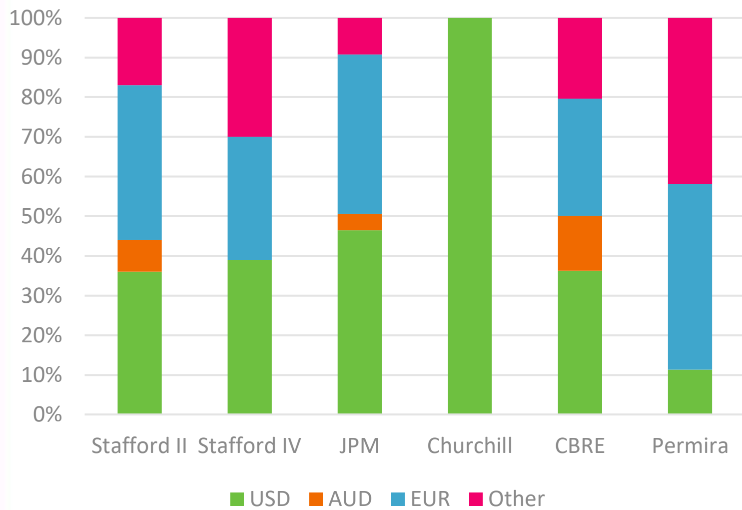
Q4 2021 Performance

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford II	-1.3	-0.4	-1.7	3.5	-5.0
Stafford IV	-20.6	-1.2	-21.7	3.5	-24.4
JPM	3.8	-0.5	3.3	3.5	-0.2
Churchill II	0.7	-1.4	-0.7	1.0	-1.7
CBRE	1.4	-0.5	0.9	3.5	-2.5
Permira	1.6	0.1	1.7	1.0	0.7

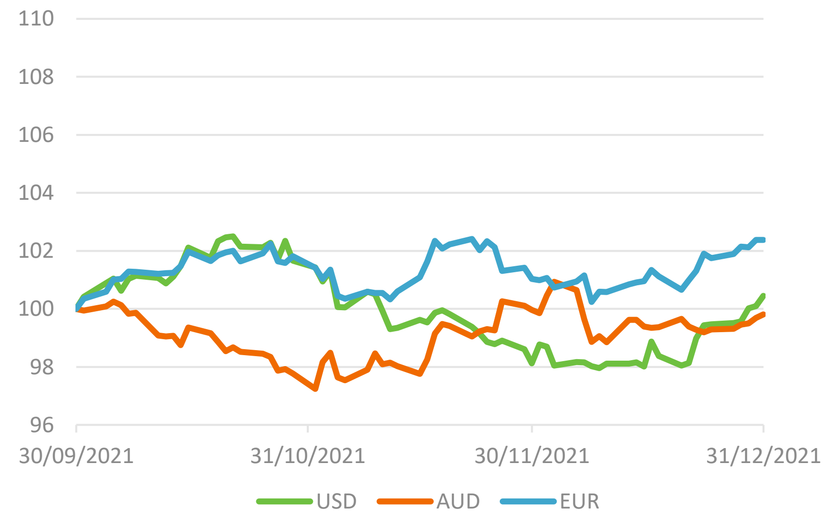
Performance Since Mandate Inception*

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford II	5.6	1.2	6.7	7.3	-0.6
Stafford IV	10.9	-0.3	10.6	8.9	1.5
JPM	7.4	0.1	7.5	7.2	0.2
Churchill II	3.1	1.7	4.8	4.5	0.2
CBRE	6.4	0.5	7.0	7.2	-0.3
Permira	3.0	1.4	4.3	4.4	-0.1

Hedged Currency Exposure **



Sterling Performance vs. Foreign Currencies (Rebased to 100 at 30 September 2021)



Source: Northern Trust, Investment managers
**Performance shown since 31 December 2019 which was the first month end after inception*
*** As at Q3 2021*

HYMANS ROBERTSON

- Since March 2018, the Fund has made commitments to seven private markets funds as outlined right. The table provides a summary of the commitments and drawdowns to 31 December 2021.
- It has been agreed that an additional £12m will be allocated to JP Morgan and this will be funded from the Baillie Gifford Global Alpha Growth Paris Aligned fund. The additional investment is currently awaiting drawdown.
- There are outstanding commitments of approximately £35m to the remaining funds which will be primarily funded from the RLAM corporate bond mandate.

Mandate	Infrastructure			Private Debt		
Vehicle	**Stafford Infrastructure Secondaries Fund II**	**Stafford Infrastructure Secondaries Fund IV**	**LCIV Renewable Energy Infrastructure Fund**	**Churchill Middle Market Senior Loan Fund II**	**Churchill Middle Market Senior Loan Fund IV**	**Permira Credit Solutions IV Senior Fund**
Commitment Date	25/04/2018	18/12/2020	30/06/2021	12/2018	29/09/2021	12/2018
Fund Currency	EUR	EUR	GBP	USD	USD	EUR
Gross Commitment (GBP estimate)	£26m	£18m	£25m	£23.4m	£19.6m	£36 m
Net Capital Called During Quarter (Payments Less Returned Capital)	£0.5m	£0.3m	£4.2m	-	£3.8m	£0.9m
Net Capital Drawn To Date	£25.1m*	£4.2m*	£6.1m	£21.3m	£5.3m	£23.9m*
Distributions/Returned Capital To Date (Includes Income and Other Gains)	£6.4m*	-	-	£3.6m	-	£1.8m*
NAV at Quarter End	£21.7m	£5.3m	£6.9m	£18.6m	£5.3m	£26.4m
Net IRR Since Inception	7.2% p.a.* (v. 8-9% target)	-	-	7.25%**	-	9.8%*
Net Cash Yield Since Inception	4.5% p.a.* (v. 5% target)	-	-	-	-	-
Number of Holdings	35 funds*	6 investments*	-	86 investments	-	76 investments*

**as at 30/09/2021 (latest available) **Refers to IRR of realised assets in the portfolio*

Source: Investment Managers

Capital Markets Outlook

Asset Class	Market Summary
Equities	• Our view on equities is underpinned by above trend growth, which should lend continued support to earnings growth, and negative real interest rates, which are expected to persist for some time even as interest rates gradually rise. Valuations remain high, particularly in the US, with multiples elevated versus historical averages.
Investment Grade Credit	• Current valuations warrant caution as relatively robust fundamentals are already reflected in spreads whilst future downside risks remain. Not only do current inflationary pressures have scope to increase input costs and squeeze margins, inflation erodes the real value of nominal fixed-interest coupons and long-duration, low spread, investment-grade credit capital values are susceptible to potential rate rises to combat inflation. Our preference is for low duration alternatives.
Emerging Market Debt	• A tightening of monetary policy by the major advanced central banks may pose a near-term technical headwind for emerging market debt in 2022. However, emerging market central banks have hiked rates sharply in 2021 to rein in inflation and yields have risen significantly. Term premia are at decade highs and emerging market currencies in aggregate look cheap versus the dollar on a longer-term view. Hard currency yield spreads, and the premium they offer over similarly rated US high yield markets, are above long-term median levels.
Liquid Sub-Investment Grade Debt	• We retain a degree of caution as speculative-grade credit spreads, which remain well below long-term median levels, more than fully reflect the fundamental positives, and do not leave much room for the potential impact of risks. We prefer loans where spreads are more attractive and less exposed to rate rises.
Private Lending	• Fundamentals have improved post-COVID, but further lockdowns may prove a further headwind to the struggling retail and travel sectors. Valuations remain neutral, relative to traded loan spreads, but loan spreads well below long-term median levels still gives us cause for caution. That said, we are less cautious on private loan markets versus high yield, in line with our preference for traded loans over high yield bonds in liquid speculative-grade markets.
Core UK Property	• UK core property market fundamentals continue to improve, although this masks differing fortunes within sectors. Valuations remain rich as yields continue to fall and while the transactional market remains robust, the volume of deals is not significantly ahead of longer-term averages.
Long Lease Property	• While long lease property valuations are less attractive than core property, these are underpinned by a marginally stronger fundamental picture and greater demand from investors. In a time of inflation uncertainty, we prefer long lease funds with a high degree of inflation-linked rents.
Conventional Gilts	• The path of cash rates currently implied by instantaneous forward nominal yields, rising to 1.6% p.a. over the next 10 to 15 years, does not look unreasonable, though the improvement in the UK labour market and above forecast inflation opens up the possibility of a more rapid pace of near-term rate increases. Implied cash rates falling beyond 15 years makes us wary of longer-term forward yields.
Index-Linked Gilts	• Given elevated inflation forecasts, near-term implied inflation is not unreasonable relative to fundamentals. Between 10 and 25 years, implied inflation looks very expensive, where levels of implied inflation could be more impacted by RPI reform. Beyond 25 years, inflation pricing does not look particularly demanding.

The table summarises our broad views on the outlook for markets. The ratings used are Positive, Attractive, Neutral, Cautious and Negative. The ratings are intended to give a guide to our views on the prospects for markets over a period of around three years; although they are updated quarterly, they are not intended as tactical calls. The ratings reflect our expectations of absolute returns and assume no constraints on investment discretion. In practice, they need to be interpreted in the context of the strategic framework within which individual schemes are managed.

Source: Hymans Robertson

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

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Geometric vs. Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + Fund\ Performance)}{(1 + Benchmark\ Performance)} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance\ - Benchmark\ Performance$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.

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PENSIONS COMMITTEE **15 MARCH 2022**

Subject Heading:	**PUBLIC SERVICE PENSIONS ACT 2013 – SECTION 13 REPORT**
SLT Lead:	**Dave McNamara** **Section 151 Officer**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Manager (Finance)*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	Public Services Pensions Act 2013 Section 13, requires the Government Actuary's Department to report on whether LGPS funding valuations meet the aims of Section 13
Financial summary:	Actuary fees met by the Pension Fund

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

The Government Actuary Department (GAD) has been appointed by the Department of 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 (LGPS) in England and Wales.

This report is published as three documents: the **executive summary (Appendix A)**, the **report (Appendix B)** and **appendices (Appendix C).**

GAD are content that the Havering Fund has a reasonable funding plan in place and there are no concerns identified in the report that require action by the Committee.

RECOMMENDATIONS

That the committee note

1. The results of the report produced by GAD attached as **Appendix A, B and C.**
2. To note Hymans summary for the Havering Pension Fund as **Appendix D.**

REPORT DETAIL

Background

a. The DLUHC formerly Ministry of Housing, Communities and Local Government (MHCLG) appointed GAD to report under section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the Funds in the LGPS.

b. Published on the 16 December 2021, this is second formal section 13 report based on the results of Fund valuations as at 31 March 2019. The first formal report applied to fund valuations as at 31 March 2016.

c. This report is based on actuarial valuations of Funds, other data provided by Funds and their actuaries. The report focuses on the **funding** of future benefits. The calculation of members benefits are set out in the regulations and are not dependent on the funding position of a particular fund.

d. The report is published as three documents: the executive summary (Appendix A), the report (Appendix B) and appendices (Appendix C). DLUHC is required to report on the Scheme every 3 years with the next report using Fund valuations as at 31 March 2022.

e. The March 2022 valuation exercise has already started and will consider the outcomes of the 2019 Section 13 report.

f. Section 13 (4) requires GAD to report on whether the following aims are achieved, using a variety of measures within the following categories:

I. **Compliance** – to confirm whether the Fund's actuarial valuation has been carried out in accordance with the scheme regulations.
II. **Consistency** – to confirm whether the Fund's actuarial valuation is consistent with other Fund valuations. This being both presentational and evidentially consistent, enabling the reader to make comparisons between different valuation reports.
III. **Solvency** – to confirm whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the Fund, and
IV. **Long Term cost efficiency** – to confirm whether the rate of employer contributions are set at a level to ensure the long-term cost-efficiency of the scheme, ensuring the Fund is not unduly storing up funding problems for later generations.

g. The findings of the report are set out as attached in Appendix B, together with the supporting analysis set out in Appendix C.

h. The Fund's actuary (Hymans) will be present at the meeting to take members through the report, summary attached as **Appendix D**. An overall summary of key findings on the LGPS are:

1. <u>Section 13 Report summary findings</u>

a. There were five recommendations made as part of the 2016 section13 report:
  I. Standard information should be provided in a uniform dashboard format to facilitate comparisons between Funds
  II. Consideration should be given to how greater clarity and consistency of actuarial assumptions could be achieved
  III. A common basis for academy conversions should be sought
  IV. Within a closed fund a plan should be put in place to ensure that benefits are funded in the event of insufficient contributions and exit payments
  V. Recovery Plans could be demonstrated to be consistent with CIPFA guidance

b. Since the 2016 report good progress was made in relation to i, iv and v but note that further progress is needed (in GAD's opinion) in relation to ii and iii –as set out in paragraph a above.

c. A further four recommendations were made from findings in the 2019 exercise and these recommendations are set out later in this report.

d. GAD allocated scores to each fund once tested against each of the aims as listed in paragraph f, using a colour classification of red, amber, white or green:

- **Red** – indicates a material issue that may result in the aims of section 13 not being met. In such circumstances, remedial action may be considered.

- **Amber** – indicates a potential material issue that Funds are expected to be aware of. In isolation, this would not usually contribute to a recommendation for remedial action.
- **White** – an advisory flag that indicates a general issue, which does not require an action in isolation. It may have been an amber flag if there were broader concerns (new for the 2019 report).
- **Green** – no material issues.

e. **Compliance findings –** Fund valuations were compliant with relevant regulations. Greater clarity on the assumptions used to determine contributions in the actuary's Rates and Adjustment certificate for some Funds would be useful.

f. **Consistency findings –** GAD reported that generally there appeared to have been a move towards more consistent assumptions. However, some items remain unclear, examples being:

- reporting whole of Fund secondary contribution rates and,
- approach to Academy conversions.

- ***GAD Recommendation 1:*** *The Scheme Advisory Board should consider the impact of inconsistency on the Funds, participating employers and 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.*

g. **Solvency findings –** The five solvency metrics adopted in the 2016 exercise have been adopted for the 2019 exercise**.** GAD reported that funding levels have improved since 2016, primarily due to asset outperformance. Results for three of the tests, where Funds were flagged, include:

- SAB Funding Level -Five Funds have a 'white' flag in relation to the Scheme Advisory Board (SAB) standardised funding level measurement, **one of which was the Havering Fund**. This has been downgraded form an 'amber' flag received in the 2016 exercise which implies GAD are content that the Fund has a reasonable funding plan in place.

- Asset Shock – Nine Funds received 'white' flags following asset shock tests, more than in 2016 under the same test. This test shows there was a risk that funds would be required to absorb a large increase in contribution rates should there be an adverse impact on asset values.

- Non-Statutory members – two Funds have between 27% & 31% of non-statutory members (e.g. the proportion of members within a Fund who are employed by an employer without tax raising powers or statutory backing - taxpayer-backed employers having stronger covenant).

h. **Long Term Cost Efficiency (LTCE) findings-**. GAD are pleased to report an improvement in Funds maintaining their deficit recovery plans but have concerns about the lack of transparency of some Funds around their deficit recovery period. Five LTCE metrics were used and the number of Funds flagged, having breached GAD thresholds for each metric, follows:

- Deficit Period – The deficit period test assesses the implied deficit recovery period based on GAD's standardised best estimate basis. A flag is raised if the implied period is greater than 10 years (Havering was 12 years). Two Funds received 'amber' flags and six received 'white' flags - **one of which was the Havering Fund**.

- Required Return – to test the extent to which the required investment return rates will achieve full funding in 20 years. One Fund received an 'amber' flag.

- Repayment Shortfall – tests the pace at which the deficit is expected to be paid off. One fund received an 'amber' flag.

- Return Scope – The return scope test assesses the required return needed to achieve full funding in 20 years vs. the best estimate investment return expected from the Fund's assets at 31 March 2019. A flag is raised if the difference is less than 0.5% (Havering was 0.1%). Thirteen funds received 'white' flags, **one of which was the Havering Fund**. Two Funds received 'amber' flags.

- Deficit Reconciliation – tests whether the deficit period can demonstrate a continuation of the pervious deficit recovery plan, after allowing for actual Fund experience. Two Funds received 'amber' flags.

- ***GAD Recommendation 2:*** *Recommend the SAB 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*

- ***GAD Recommendation 3:*** *Recommend that Fund actuaries provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard experience".*

- GAD also made a comment about ensuring appropriate governance arrangements for certain type of property asset transfers between a council and the pension fund in lieu of future contributions. This does not affect any of the funding arrangements in the Havering Fund.

- **GAD Recommendation 4** – *The SAB review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around such transfers to ensure long- term cost efficiency.*

3. **Impact of result on the Havering Pension Fund**

a. The Section 13 DRAFT 2019 report, shows that Havering received three 'white flags', as follows:

Long term cost Efficiency:

- One for being in the bottom 5 for funding level
- One for having an implied deficit recovery period greater than 10 years

Solvency

- One for return scope (more reliance on investment returns in the funding plan compared to others).

b. The Fund's actuaries have provided the following comments for the committee:

- Under the Solvency test, the fund received a 'white flag' under the measure of SAB funding level. A white flag is one where the result of GAD's test triggered an amber warning, however, upon review of the flag, GAD have deemed that the measure is no cause for action (it would have remained amber if GAD had broader concerns). The SAB funding level test identifies the five LGPS funds with lowest funding level when measured on the standardised SAB funding basis. Given that GAD have downgraded the amber flag to white suggests that GAD are happy that the fund has a reasonable funding plan in place given the current funding position.

- Given that the amber flags were downgraded to white, there is nothing for the fund to be concerned about. Further, given this analysis is heavily based on GAD's assumptions and market expectations, which are likely to be different from the fund's, I do not suggest that these specific points need any further consideration when reviewing the funding and investment strategy at the 2022 valuations. However, as with previous valuations, consideration should be made to the key aims of Section 13 and GAD's general recommendations when setting the funding and investment strategies as part of the 2022 and future valuations.

IMPLICATIONS AND RISKS

Financial implications and risks:

The report focuses on the funding of future benefits. The calculation of members benefits are set out in the regulations and are not dependent on the funding position of a particular fund.

A white flag is an advisory flag that indicates a general issue, which does not require an action in isolation. It may have been an amber flag if there were broader concerns.

There are no direct cost implications because of the ‘white’ flags and no immediate costs incurred because of the GAD recommendations. However the Fund will receive a total charge from the Actuary for £750 plus VAT to cover the time reviewing the draft report on the Funds behalf (£450 plus VAT) and carrying out a review of the figures in GAD’s report £350 plus VAT).

Actuarial charges will be met from the Pension Fund.

Legal implications and risks:

GAD has been appointed by DLUHC to report under Section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the funds in the LGPS in England and Wales.

Section 13 (4) requires GAD to report on whether the following aims achieved, using a variety of measures within the following categories: compliance, consistency, solvency and long term cost efficiency.

Section 13 (6) If the report states that, in the view of the person making the report, any of the aims in that subsection (4) (above) has not been achieved the report may recommend remedial steps and the scheme manager must take such remedial steps as considered appropriate, and publish details of those steps and the reasons for taking them;

There are no remedial actions required for the Havering Pension Fund and the Havering Pension Fund will, where required, cooperate with the SAB’s consideration/implementation of GAD’s recommendations.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
iii. foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

An EqEIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

None arise from this report as this report is required to be published in order to comply with Local Government Pension Scheme Regulations 2013.

BACKGROUND PAPERS

Background Papers List
As per the attachments to this report

LGPS England and Wales Section 13 Report - 31 March 2019: Executive Summary

Published 16 December 2021

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).

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

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.

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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.

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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").

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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
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.	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.
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.	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.

2016 Recommendation	Progress
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.	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.
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.	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
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.	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.

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.

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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.

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

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.

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

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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 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.

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 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.

Chart 5.1 Implied asset outperformance range

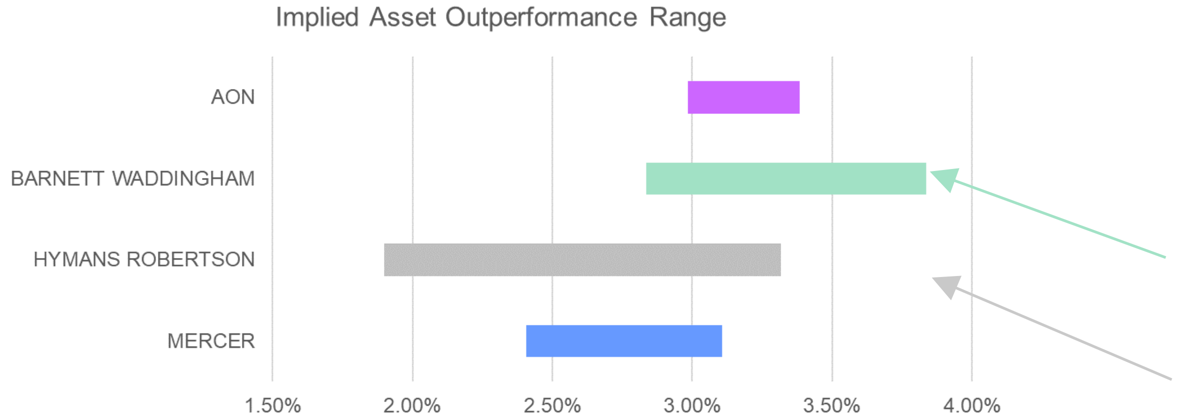

Chart 5.1 illustrates one aspect of the difference in assumptions applied by the four actuarial advisors (with the EA closed fund excluded)

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.

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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?"
	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."
Mercer	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.

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	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.
Barnett Waddingham	Barnett Waddingham commented that the same approach would be adopted for funds advised by Barnett Waddingham in future.
Hymans Robertson	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

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.

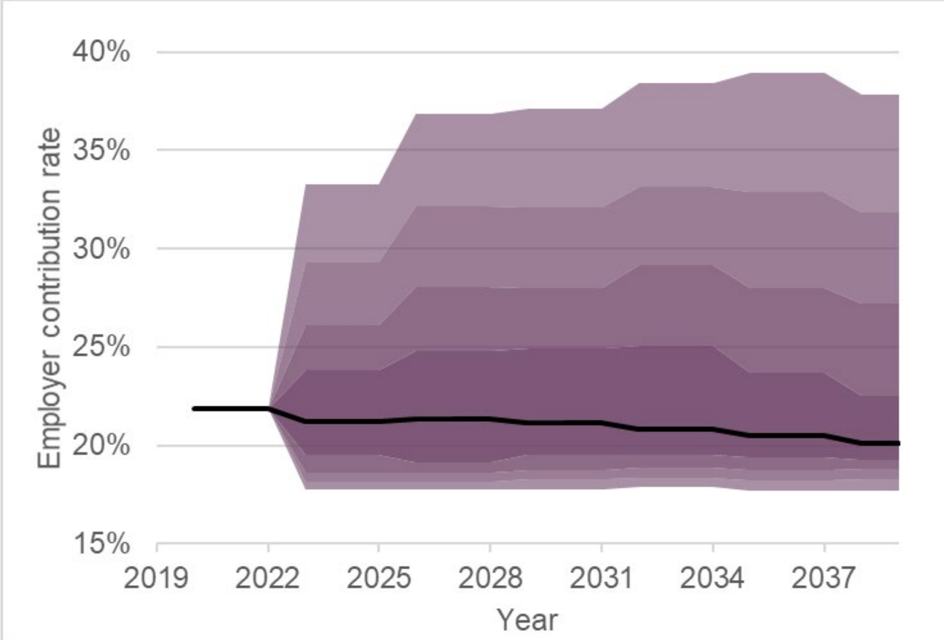
6.21 The methodology used for the ALM is set out in Appendix E.

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

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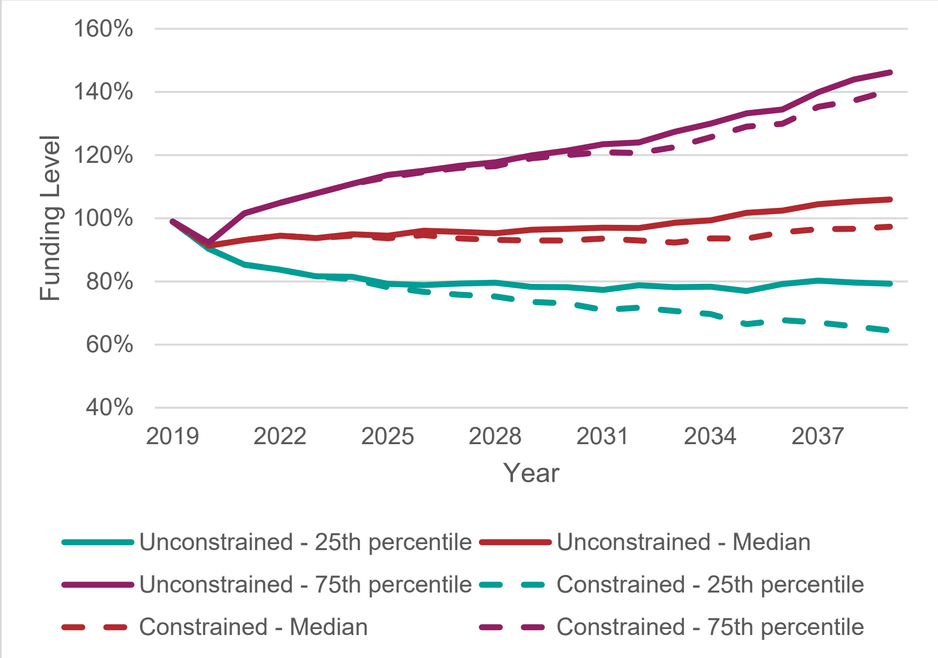
Funding of benefits at future valuations

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.

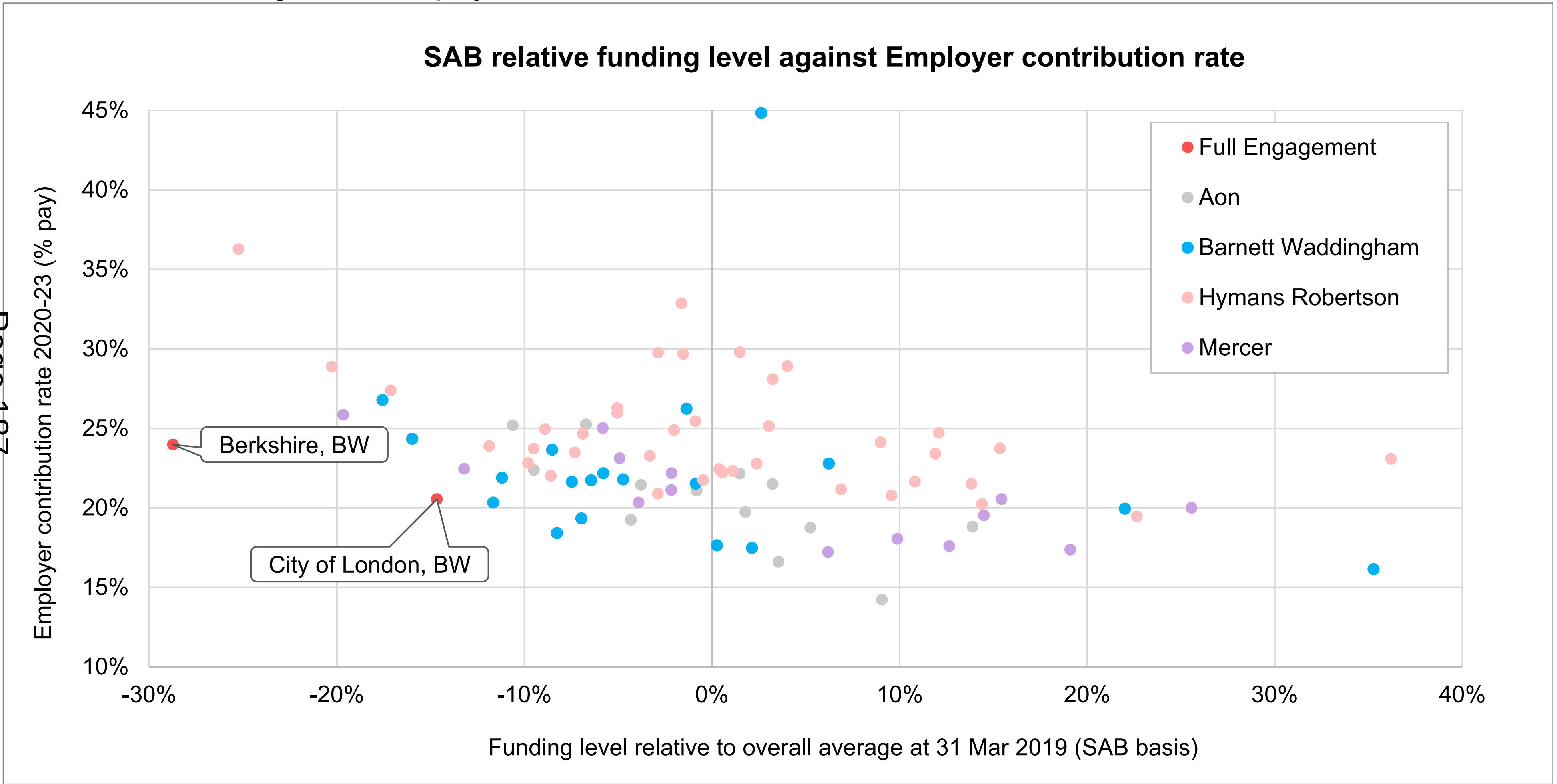
7.6 We engaged with a number of funds for which we did not raise a combination of flags. This was as a courtesy to explain that they were close to being flagged and may want to take action as part of the 2022 valuation to reduce the likelihood of being flagged then. These funds are listed in Appendix 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



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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.

Government
Actuary's
Department

Local Government Pension Scheme England and Wales

Section 13 Report as at 31 March 2019

Appendices

October 2021

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Appendix A: Compliance

A.1 In this appendix we set out checks we conducted to determine whether the actuarial valuations of the 88 Local Government Pension Scheme (LGPS) funds have been completed in accordance with the scheme regulations.

Statement of Compliance

A.2 The Government Actuary's Department (GAD) selected one fund as a representative example from each of the firms of actuarial advisors. The following statements of compliance were contained within the chosen reports by each firm:

Table A1: Statement of Compliance

Fund	Statement of compliance
London Borough of Enfield Pension Fund (Aon)	This report was commissioned by and is produced solely for the use of the Administering Authority. It is produced in compliance with: Regulation 62 of the Local Government Pension Scheme Regulations 2013.
London Borough of Sutton Pension Fund (Barnett Waddingham)	The purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2020 to 31 March 2023 as required under Regulation 62 of the Regulations.
Derbyshire Pension Fund (Hymans Robertson)	We have been commissioned by Derbyshire County Council ("the Administering Authority") to carry out an actuarial valuation of the Derbyshire Pension Fund ("the Fund") as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 ("the Regulations")
Lancashire County Pension Fund (Mercer)	This report is addressed to the Administering Authority of the Lancashire County Pension Fund ("the Administering Authority") and is provided to meet the requirements of Regulation 62 of the Local Government Pension Scheme Regulations 2013 (as amended) ("the Regulations").

Compliance with valuation regulations

Actuarial Valuation Reports Regulation 62 (1 - 2)

A.3 Regulation 62 (1) requires the administering authority to obtain an actuarial valuation report on the assets and liabilities of each of its pension funds, including a rates and adjustments certificate, as at 31st March 2016 and on 31st March in every subsequent valuation year (i.e. 31st March 2019). Regulation 62 (2) requires that the above documents be obtained by the first anniversary of the date at which the valuation is made, namely, 31 March 2020 in the case of the 2019 valuation.

Publication

A.4 Each chosen fund was published in accordance with regulations. The following table sets out dates of publication of the actuarial report.

Table A2: Publication date

Fund	Date of publication
London Borough of Enfield Pension Fund (Aon)	31 March 2020
London Borough of Sutton Pension Fund (Barnett Waddingham)	31 March 2020
Derbyshire Pension Fund (Hymans Robertson)	31 March 2020
Lancashire County Pension Fund (Mercer)	31 March 2020

Demographic Assumptions

A.5 Regulation 62 (3) states that the actuarial valuation report must contain a statement of the demographic assumptions that have been used in making the valuation, and must show how these assumptions reflect the experience that has actually occurred during the period since the last valuation. Each valuation report contains a section on demographic assumptions including all the assumptions that we would expect in an actuarial valuation report.

Table A3: Demographic Assumptions

Demographic	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)
Pre-retirement mortality	✔	✔	✔	✔
Post-retirement mortality	✔	✔	✔	✔
Dependant mortality	✔	✔	✔	✔
Ill health retirement	✔	✔	✔	✔
Normal health retirements	✔	✔	✔	✔
Withdrawals	✔	✔	✔	✔
Promotional salary scale	✔	N/A	✔	N/A
Family details (partners and dependants)	✔	✔	✔	✔
50:50 option take-up	✔	✔	✔	✔
Commutation	✔	✔	✔	✔

Barnett Waddingham and Mercer did not make a separate promotional salary scale assumption and therefore effectively this was combined in their general pay increase assumption.

Local Experience

A.6 The regulation requires that the reports "must *show how* the assumptions relate to the events which have actually occurred in relation to members of the Scheme since the last valuation." in respect of the demographic assumptions. For the four chosen funds:

> All have shown differences between expectations and experiences for the inter-valuation period

We note that additional information on demographic experience and assumption setting may be contained in supporting (non-public) reports/advice.

Contribution Rates

A.7 Regulation 62 sets out that employer contributions are separated into two components:

- Primary rates which meet the cost of ongoing accrual for current active members; and
- Secondary rates, which are mainly established to repay deficit or eliminate surplus over a given period (the deficit/surplus recovery period).

A.8 Regulation 62 (6) states that when setting the contribution rates the actuary must have regard to:

- the existing and prospective liabilities arising from circumstances common to all those bodies

> the *desirability* of maintaining as nearly constant a common rate as possible

> the current version of the administering authority's funding strategy mentioned in regulation 58 (funding strategy statements), and

> the *requirement* to secure the solvency of the pension fund and the long-term cost efficiency of the Scheme, so far as relating to the pension fund.

A.9 Regulation 62 (4) states that the rates and adjustments certificate must specify both the primary rate of the employer's contribution and the secondary rate of the employer's contribution, for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.

A.10 Each valuation report must set out primary and secondary employer contribution rates.

Primary Rates

A.11 Regulation 62 (5) defines the primary rate of an employer's contribution as "the amount in respect of the cost of future accruals which, in the actuary's opinion, should be paid to a fund by all bodies whose employees contribute to it so as to secure its solvency", and specifies that this must be expressed as a percentage of the pay of their employees who are active members.

A.12 The following table shows the primary rate of employer contribution for the administering authorities whole fund:

Table A4: Primary contribution rate

Fund	Primary contribution rate
London Borough of Enfield Pension Fund (Aon)	18.5%
London Borough of Sutton Pension Fund (Barnett Waddingham)	19.2%
Derbyshire Pension Fund (Hymans Robertson)	18.5%
Lancashire County Pension Fund (Mercer)	17.4%

A.13 Each primary rate of employer contribution has been calculated to cover the cost of future benefits accrued by their employees. Each valuation also provides a breakdown of the primary rate for each employer. Each valuation provides a secondary rate for each employer (expressed as a cash amount and/or percentage of pay for each employer).

Secondary Rates

A.14 Regulation 62 (7) states that the secondary contribution rate may be expressed as either a percentage or a monetary amount. Each valuation provides a secondary rate for each employer (expressed as a cash amount and/or percentage of pay for each employer). The secondary rates of employer contributions for each valuation have been defined to be adjustments to the primary rate as required. In all cases, the secondary rates have been provided for the next three years for each employer.

Table A5: Whole fund Secondary Contribution Rates

Fund	2020/21	2021/22	2022/23
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

Rates and Adjustments Certificate (Regulation 62 (8))

A.15 Regulation 62 (8) states that the rates and adjustments certificate must contain a statement of the assumptions on which the certificate is given as respects:

(a) the number of members who will become entitled to payment of pensions under the provisions of the Scheme; and

(b) the amount of the liabilities arising in respect of such members

during the period covered by the certificate.

A.16 In the following table we set out where the assumptions for each valuation can be found.

A.17 Of the four chosen funds only two had Rates and Adjustments Certificate containing a clear statement detailing the assumptions on which the certificate has been given and where to find them in our opinion. We recommend that advisers consider further at subsequent valuations. However, we do not consider this to be material non-compliance.

Table A6: Location of assumptions

Fund	Statement in rates and adjustments certificate	Location of assumptions in valuation report
London Borough of Enfield Pension Fund (Aon)	Not transparent to GAD initially (but updated once highlighted)	Further information e
London Borough of Sutton Pension Fund (Barnett Waddingham)	✔	Appendix 2
Derbyshire Pension Fund (Hymans Robertson)	✔	Appendix 2
Lancashire County Pension Fund (Mercer)	Not transparent to GAD	Appendix A

Regulation 62 (9)

A.18 Regulation 62 (9) States that the administering authority must provide the actuary preparing a valuation or a rates and adjustments certificate with the consolidated revenue account of the fund and such other information as the actuary requests.

A.19 For each of the four valuation reports examined we have seen evidence of having received relevant data from the administering authority.

Appendix B: Consistency

B.1 In this appendix we set out analysis we undertook in relation to whether the actuarial valuations were carried out in a way which is not inconsistent with other valuations completed under the scheme regulations. This appendix contains comments and a number of charts referring to the following aspects:

> Key information

> Funding levels

> Discount rates

> Demographic assumptions

Key Information

B.2 Based on the recommendation in the 2016 report all funds provided a standardised dashboard of results. The standardised dashboard is provided below, but in green are suggested additional elements which have been recommended as part of the 2019 section 13 review.

Table B1: Dashboard

Item requested	Format
Past service funding position – local funding basis:	
Funding level (assets/liabilities)	*%*
Funding level (change since last valuation)	*%*
Asset value used at the valuation	*£m*
Value of liabilities	*£m*
Surplus (deficit)	*£m*
Discount rate – past service	*% pa*
Discount rate – future service used for contribution rate setting	*% pa*
Assumed pension increases (CPI)	*% pa*
Method of derivation of discount rate, plus any changes since the previous valuation	*Freeform text*
Assumed life expectancies at age 65:	
Average life expectancy for current pensioners – men currently age 65	*years*

Item requested	Format
Average life expectancy for current pensioners – women currently age 65	*years*
Average life expectancy for future pensioners – men currently age 45	*years*
Average life expectancy for future pensioners – women currently age 45	*years*

Past service funding position – SAB basis:	
Market value of assets	*£m*
Value of liabilities	*£m*
Funding level on SAB basis (assets/liabilities)	*%*
Funding level on SAB basis (change since last valuation)	*%*

Contributions rates payable:	*2019 Valuation*	*2022 Valuation*
Primary contribution rate (average for the fund)	*% pa*	*% pa*
Secondary contribution - 1st year of rates and adjustment certificate	*£m*	*£m*
Secondary contribution - 2nd year of rates and adjustment certificate	*£m*	*£m*
Secondary contribution - 3rd year of rates and adjustment certificate	*£m*	*£m*
Assumed payroll - 1st year of rates and adjustment certificate	*£m*	*£m*
Assumed payroll – 2nd year of rates and adjustment certificate	*£m*	*£m*
Assumed payroll – 3rd year of rates and adjustment certificate	*£m*	*£m*
Total expected contributions - 1st year of rates and adjustment certificate	*£m*	*£m*
Total expected contributions – 2nd year of rates and adjustment certificate	*£m*	*£m*
Total expected contributions – 3rd year of rates and adjustment certificate	*£m*	*£m*
Average total employer contribution rate (over the 3 years covered by the rates and adjustment certificate)	*%pa*	*% pa*
Average employee contribution rate (over the 3 years covered by the rates and adjustment certificate)	*%pa*	*% pa*
Employee contribution rate based on 1st year of rates and adjustment certificate assumed payroll	*£m*	*£m*

Item requested	Format	
Deficit recovery plan	*2019 Valuation*	*2022 Valuation*
Deficit/(Surplus) recovery period end date	*Year*	*Year*
Where a deficit recovery end date is not provided, please provide: time horizon for valuation funding plan	*Year*	*Year*
Likelihood of success of valuation funding plan on the 2019 time horizon	*%*	*%*
Additional information:		
Percentage of liabilities relating to employers with deficit recovery periods of longer than 20 years	%	
Percentage of total liabilities that are in respect of Tier 3 employers	%	

B.3 All information was included for the sample fund reports we considered in more detail listed below:

Fund
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)

Funding Levels

B.4 Chart B1 shows how the ranking of local funding levels varies when results are restated onto the SAB standardised basis. We might expect the rankings of funding levels when calculated on the local bases to correspond roughly to the rankings of funding levels when calculated on the SAB standard basis. We would therefore expect the lines in Chart B1 joining each fund in the column on the left with itself in the column on the right to be roughly horizontal. However, we see that there is no clear correlation between how funds rank on local bases and how they rank on the SAB standard basis. To choose a typical example, Cheshire is ranked mid-table on the local basis but is towards the top quartile of the table on the SAB standard basis, indicating that their local fund basis is, relatively, more prudent than the other funds. To note we would expect the local funding basis to be prudent. A prudent basis is one where there is a greater than 50% likelihood that the available assets will cover the benefits in respect of accrued service when they fall due if assets are valued equal to liabilities.

Chart B1: Standardising Local Valuation Results

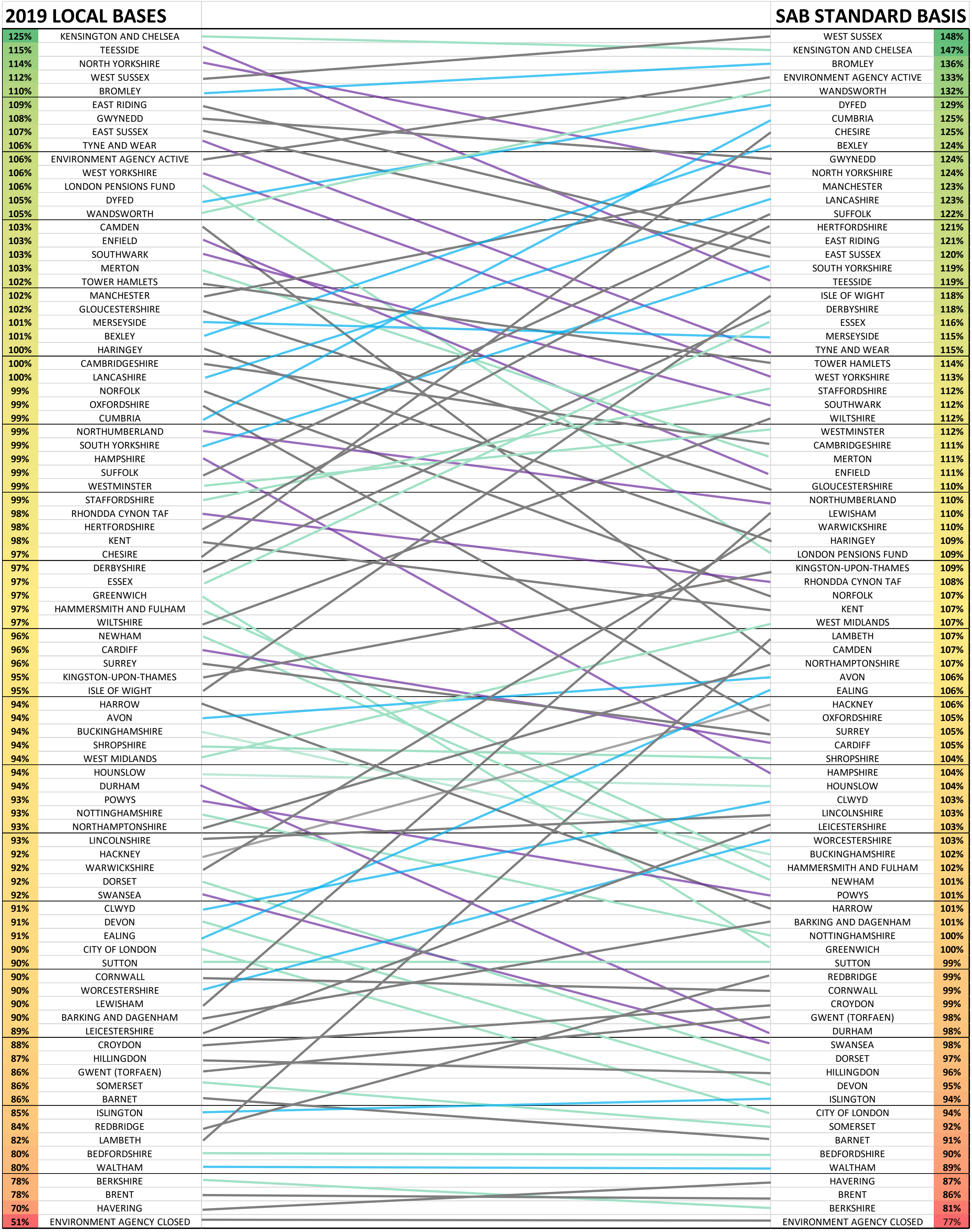
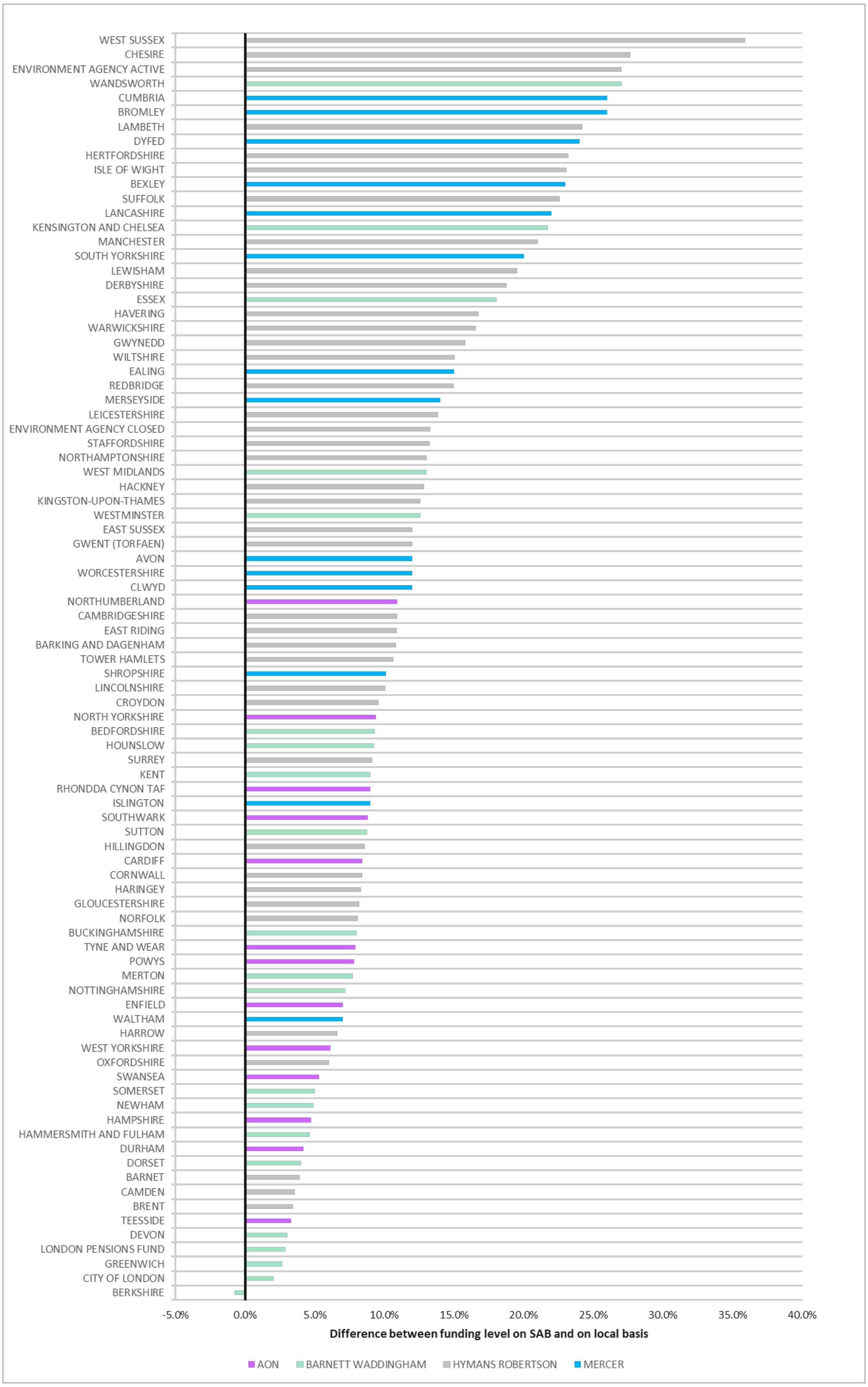


Chart B2: Difference Between Funding Level on SAB Standardised Basis and Funding Level on Local Bases



Discount Rates

B.5 Each firm of actuarial advisors applies their own method for calculating discount rates as shown in the table below.

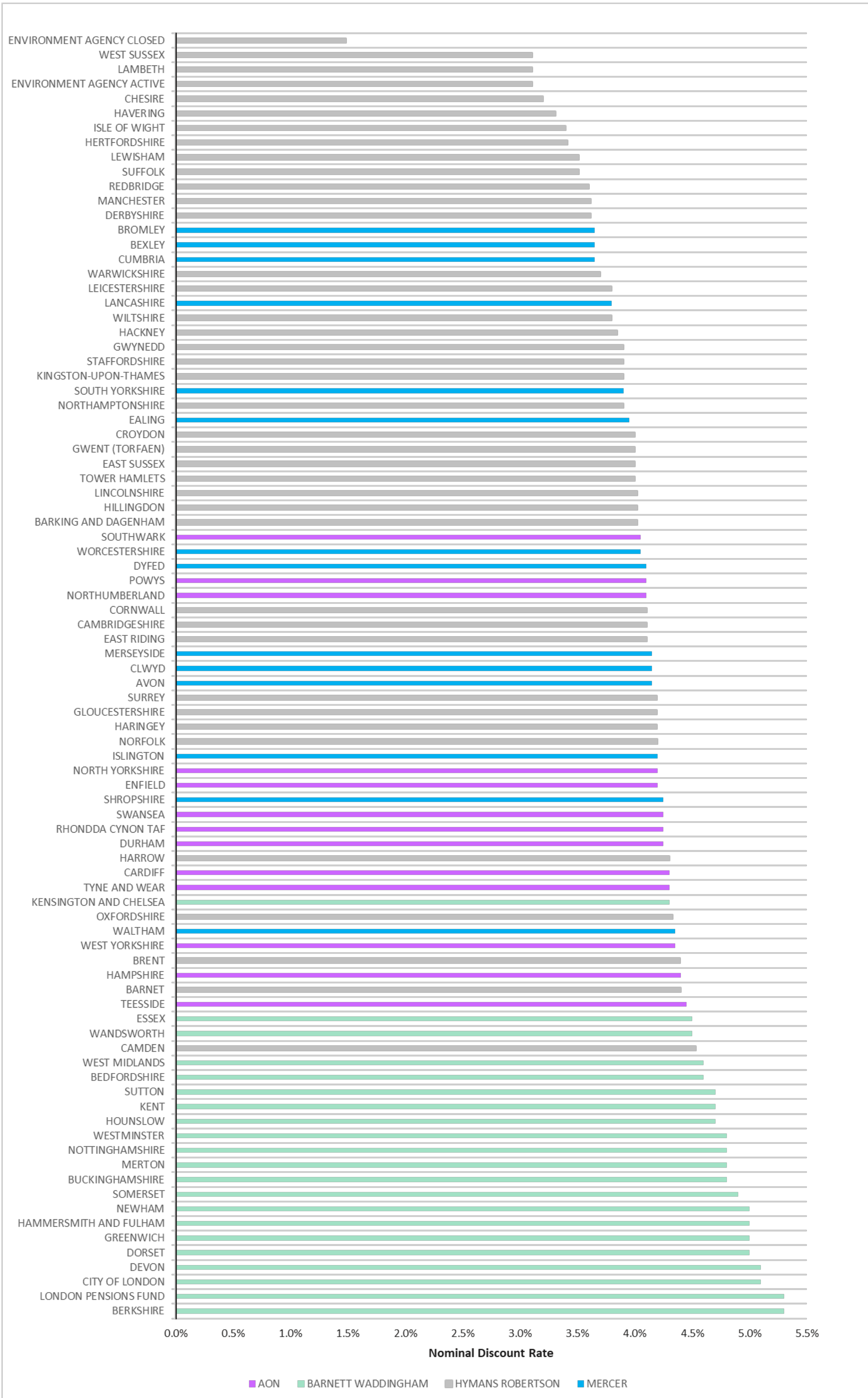
B.6 Chart B3 shows the pre-retirement discount rate used to assess past service liability applied in the actuarial valuations for each fund. Note that some funds (advised by Mercers') used different discount rates to assess past service liabilities and future service contribution rates, we consider only the former here.

B.7 The discount rates set by each fund are likely to be linked to the mix of assets held by the fund, and we would therefore expect to see differences in discount rate from fund to fund.

Table B2: Discount Rate Methodology

Fund	Discount rate methodology
London Borough of Enfield Pension Fund (Aon)	Stochastic modelling
London Borough of Sutton Pension Fund (Barnett Waddingham)	Weighted average expected return on long term asset classes
Derbyshire Pension Fund (Hymans Robertson)	Stochastic modelling
Lancashire County Pension Fund (Mercer)	Stochastic modelling

Chart B3: Pre – retirement Discount Rates



B.8 We assess implied asset outperformance as discount rate less risk free rate less RPI, where the risk free rate is taken to be the real 20 year Bank of England spot rate as at 31 March 2019 (-2.14%). Chart B4 shows the assumed asset out performance (“AOA”) over and above the risk free rate, where AOA is calculated as the fund’s nominal discount rate (“DR”) net of:

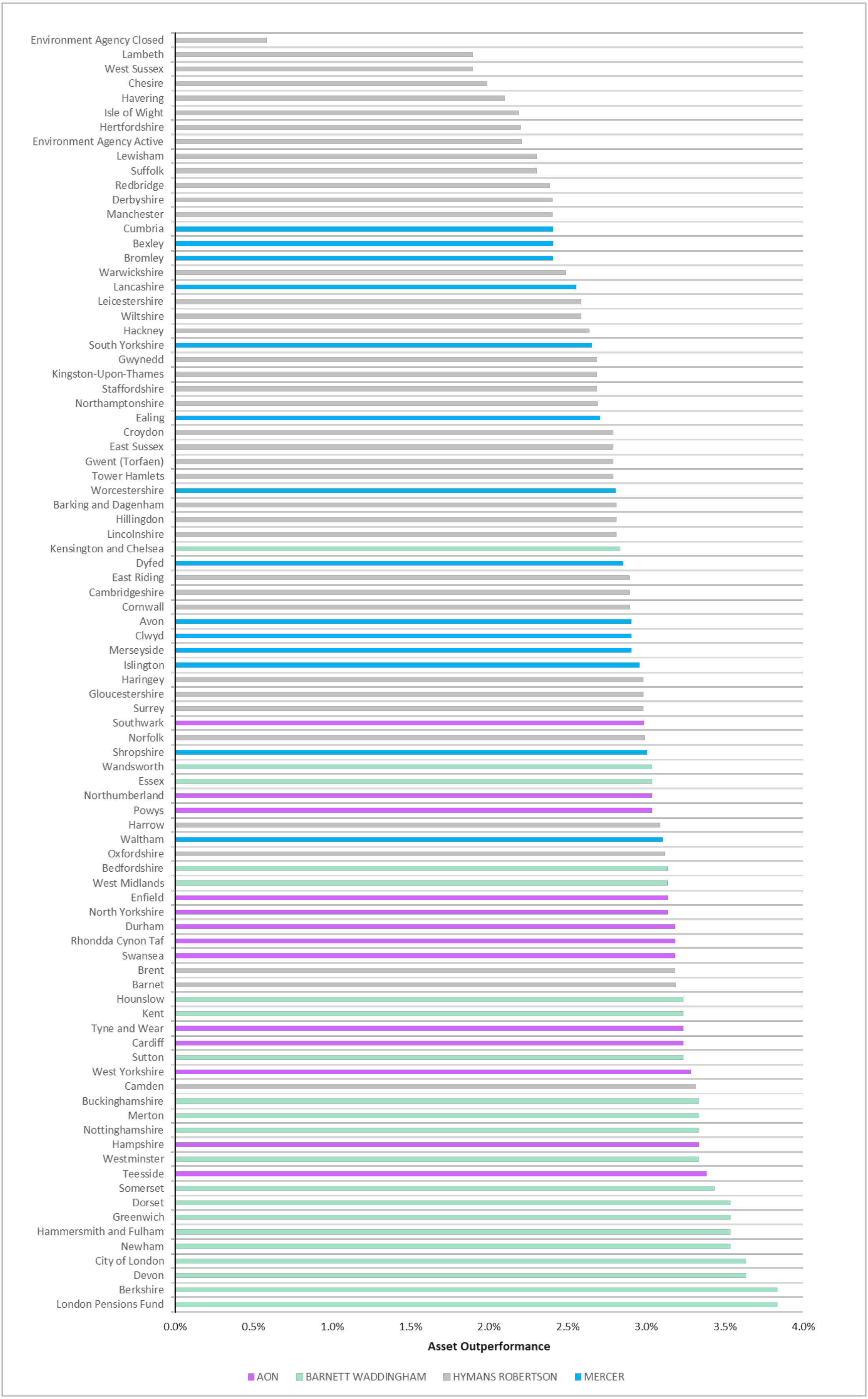
> The RFR – the real 20 year Bank of England spot rate as at 31 March 2019

> Assumed CPI – as assumed by the fund in their 2019 actuarial valuation

> The excess of assumed RPI inflation over assumed CPI inflation (“RPI– CPI”) – as assumed by the fund in their 2019 actuarial valuation i.e. $\mathrm{AOA} = \mathrm{DR} - \mathrm{RFR} - \mathrm{RPI}$. (Chart B4 shows the implied rate of asset outperformance for each fund.)

B.9 The implied asset outperformance shows less variation than in 2016. This may suggest some improvement in consistency in the assumption that in previous years. However, there is still a notable trend for funds advised by Aon and Barnett Waddingham to have higher levels of asset outperformance, whilst those advised by Hymans Robertson show lower levels of asset outperformance.

Chart B4: Assumed Asset Outperformance within Discount Rate



Demographic assumptions

B.10 Commutation assumptions (the extent to which members on average exchange pension in favour of a tax free cash benefit) are set as the percentage of the maximum commutable amount that a member is assumed to take on retirement. Chart B5 shows the assumed percentages for both pre 2008 and post 2008 pensions, which may be set separately.

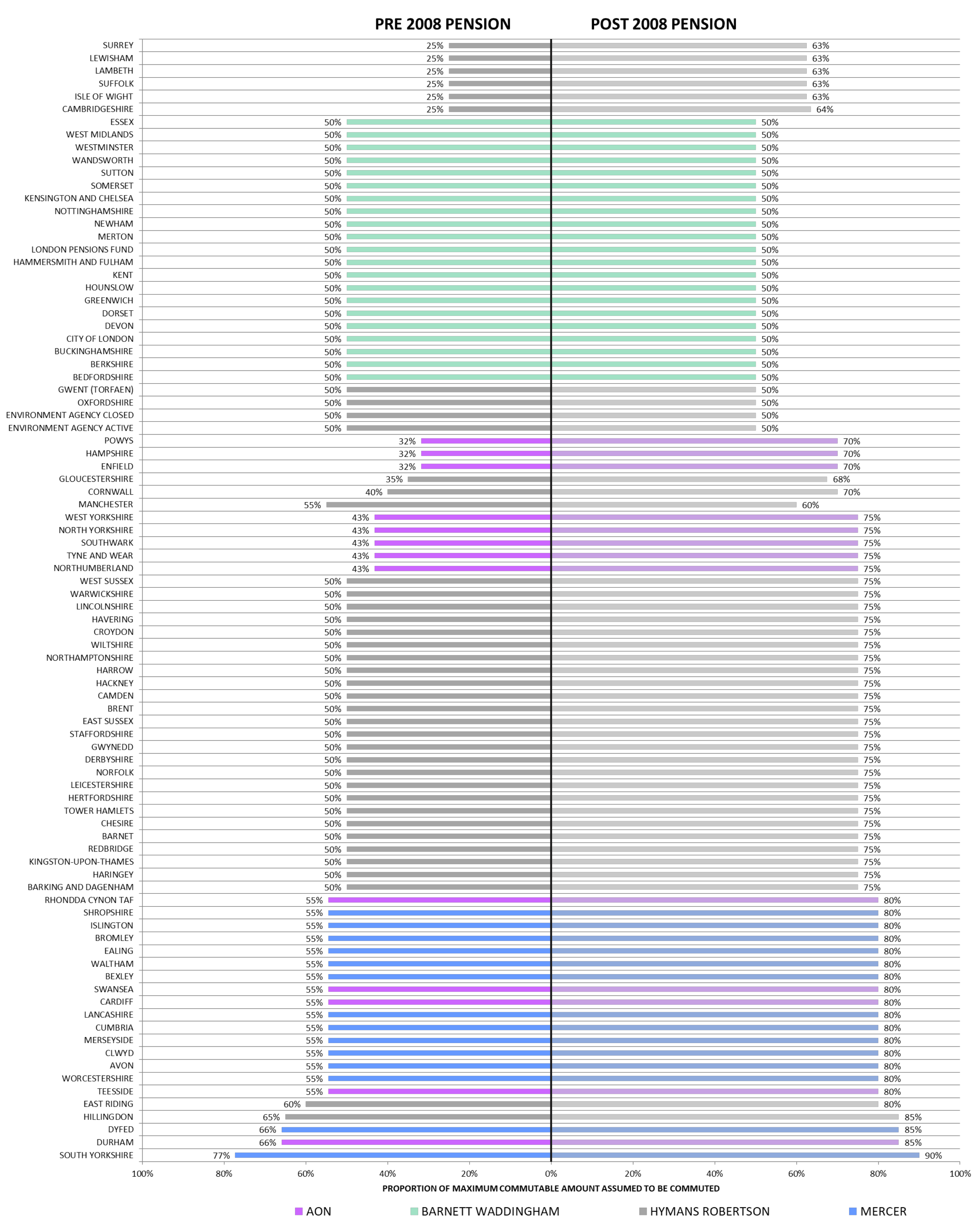
B.11 Other things being equal, it is more prudent to assume a lower rate of commutation, because the cost of providing a pension benefit is higher than the commutation factor. In addition, cash was provided as of right in the LGPS prior to 2008 whereas for benefits accrued after that date, cash was available only by commutation of pension.

B.12 The chart shows that the funds advised by Barnett Waddingham assume that members commute 50% of the maximum allowable cash amount. The majority of funds advised by Mercer assume that members take 80% of the maximum allowable cash amount. There is more variation in the commutation assumptions made by funds advised by Aon and Hymans Robertson. However, there is a noticeable cluster of funds assuming members commute 50% of the maximum allowable for pre 2008 pensions and 75% for post 2008 for Hymans Robertson clients.

B.13 If it is the case that firms of actuarial advisors find that there is insufficient data to make assumptions on a fund by fund basis, then it would be reasonable for them to make the assumption based on scheme wide data. However, each advisor only has access to the data from the funds that it advises, and therefore can only base their assumptions on the data from those funds. Another firm of actuarial advisors has access to the data for a different collection of funds and therefore might draw a different conclusion as to what the scheme wide average commutation rate is.

B.14 We encourage further discussions on how assumptions are derived based on local circumstances in valuation reports.

Chart B5: Commutation Assumptions for Pre and Post 2008 Pensions



Appendix C: Solvency

C.1 In this appendix we set out analysis we undertook in relation to whether the rate of employer contributions to the LGPS pension fund is set at an appropriate level to ensure the solvency of the pension fund. This appendix contains a description of:

> Solvency considerations

> Core Spending Power

> Mapping of solvency considerations to measures adopted

> Methodology used for solvency measures

> Table of outcomes for each fund

Potential for default

C.2 In the context of the LGPS:

> Our understanding based on confirmation from the Department for Levelling Up, Housing and Communities (DLUHC) is that, in contrast to employers in the private sector, there is no insolvency regime for local authorities

> Therefore, for the purposes of our analysis we assume that local authority sponsors cannot default on their pension liabilities through failure

> Members' benefits are therefore dependent on the assets of the scheme and future contributions from employers including local authorities

Solvency considerations

C.3 In assessing whether the conditions for solvency are met, we will have regard to:

Risks already present:

> funding level on the SAB standard basis

> whether or not the fund continues to be open to new members. If the fund is closed to new members or is highly mature and without any guarantee in place, we will focus on the ability to meet additional cash contributions.

> the ability of tax raising authorities to meet employer contributions

Emerging risks:

> the risks posed by changes to the value of scheme assets (to the extent that these are not matched by changes to the scheme liabilities)

> the proportion of scheme employers without tax raising powers or without statutory backing

C.4 We express the emerging risks in the context of Core Spending Power (for English local authorities, described below) or financing data (for Welsh local authorities). For funds which have no or limited Core Spending Power we have followed the same approach used in 2016 and the dry run.

Core Spending Power

C.5 GAD's stress tests are designed to test the ability of the underlying tax raising employers to meet a shock in the fund; one that results in a sustained reduction of the funding position, requiring remedial action from those employers in the form of long term additional contributions.

C.6 The purpose is to put this in the context of the financial resources available to those tax raising employers. In order to do that, DLUHC has pointed to an objective, well used and publicly available measure referred to as Core Spending Power. This applies for all local authorities across England and is published here.

C.7 Core Spending Power has the following components:

> Modified Settlement Funding Assessment

> Estimated Council Tax excluding Parish Precepts

> Potential additional Council Tax revenue from Adult Social Care flexibility

> Potential additional Council Tax revenue from £5 referendum principle for districts with lower quartile B and D

> Proposed Improved Better Care Fund

> Illustrative New Homes Bonus

> Rural Services Delivery Grant

C.8 GAD have referenced Core Spending Power for 2019-20 (to be consistent with the effective date of the data provided for section 13) as the measure of financial resource of the underlying (tax raising) employers, and amalgamated these up to the fund level, in order to compare like with like. The Core Spending Power 2019-20 data was subsequently revised, however the results were not revised as this was not material to GAD's recommendations.

C.9 Core Spending Power is not a measure of total local authority income. It does not include commercial income, sales fees and charges, or ring-fenced grants (except improved Better Care Fund). Core Spending Power includes an assumed modelled amount of locally retained business rates and as such does not include growth (or falls) in actual retained business rates. In some authorities, non-uniformed police employees participate in the LGPS, but their funding comes from Home Office. On the basis that the majority of this applies to uniformed police officers, no adjustment is made for it. Similarly, DfE funding for academies is not included.

C.10 Core Spending Power is publicly available and objective, therefore DLUHC have advised it is the best such measure available currently.

C.11 Core Spending Power does not apply to Welsh local authorities. For Welsh funds GAD have used "financing of gross revenue expenditure" ("financing data"), which is broadly comparable with Core Spending Power, following discussions with Welsh Government in 2016. This applies for all local authorities in Wales and is published here. The 2019-20 "financing of gross revenue expenditure" data was subsequently revised, however the results were not revised as this was not material to GAD's recommendations.

C.12 Financing data has the following components which GAD have included for the purpose of section 13 analysis:

> Adjustments (including amending reports)

- Council tax reduction scheme (including RSG element)
- Discretionary non-domestic rate relief
- General government grants
- Share of re-distributed non-domestic rates
- Amount to be collected from council tax

C.13 Financing data also has the following components which we have not included for the purpose of section 13 analysis:

- Specific grants
- Appropriations from(+) / to(-) reserves

C.14 We have referenced financing data for 2019-20 (to be consistent with the effective date of the data provided for section 13) as the measure of financial resource of the underlying (tax raising) employers, and amalgamated these up to the fund level, in order to compare like with like.

C.15 Similarly to Core Spending Power, financing data excludes income from sales, fees, and charges and we have excluded police funding from the analysis.

Solvency measures

C.16 The five solvency metrics adopted in the 2016 exercise have been adopted for the 2019 exercise. We developed and considered other measures but have excluded, for example the liability shock as it did not add value under current circumstances beyond what was already measured under asset shock.

Table C1: 2019 Solvency measures

Consideration	Measure Used
Risks already present:	
The relative ability of the fund to meet its accrued liabilities	**SAB funding level:** A fund's funding level using the SAB standard basis, as set out in Appendix G
The extent to which the fund continues to be open to new members. If a fund is closed to new members or is highly mature, we will focus on the ability to meet additional cash contributions	**Open fund:** Whether the fund is open to new members
The proportion of scheme employers without tax raising powers or without statutory backing	**Non-statutory members:** The proportion of members within the fund who are/were employed by an employer without tax raising powers or statutory backing
Emerging risks:	
The cost risks posed by changes to the value of scheme assets (to the extent that these are not matched by changes to the scheme liabilities)	**Asset shock:** The change in average employer contribution rates expressed as a percentage of Core Spending Power (or financing data) after a 15% fall in value of return-seeking assets
The impact that non-statutory employers defaulting on contributions would have on the income of sponsoring employers as a whole	**Employer default:** The change in average employer contribution rates as a percentage of Core Spending Power (or financing data) if all employers without tax raising powers or statutory backing default on their existing deficits

C.17 Emerging risk measures require assumptions. We used best estimate assumptions for this purpose, details of which can be found in Appendix G. Details of the methods used to calculate scores under each measure and the criteria used to assign a colour code can be found in this chapter.

Funds with no or low core spending

C.18 There were four funds with no or low core spending:

- City of London Corporation Pension Fund
- Environmental Agency Active Fund
- Environmental Agency Closed Fund
- London Pension Fund Authority Pension Fund

C.19 For each of these funds, we have reverted to the 2016 and dry run methodology for asset shock and employer default, which expressed the resulting additional contributions to meet the emerging deficit as a percentage of pensionable pay.

Solvency measures – methodology

C.20 We detail the methodology behind the measures used to assess a fund's solvency position. Some of the measures listed below were calculated using a market consistent set of assumptions. For more information on this best estimate basis please see Appendix G.

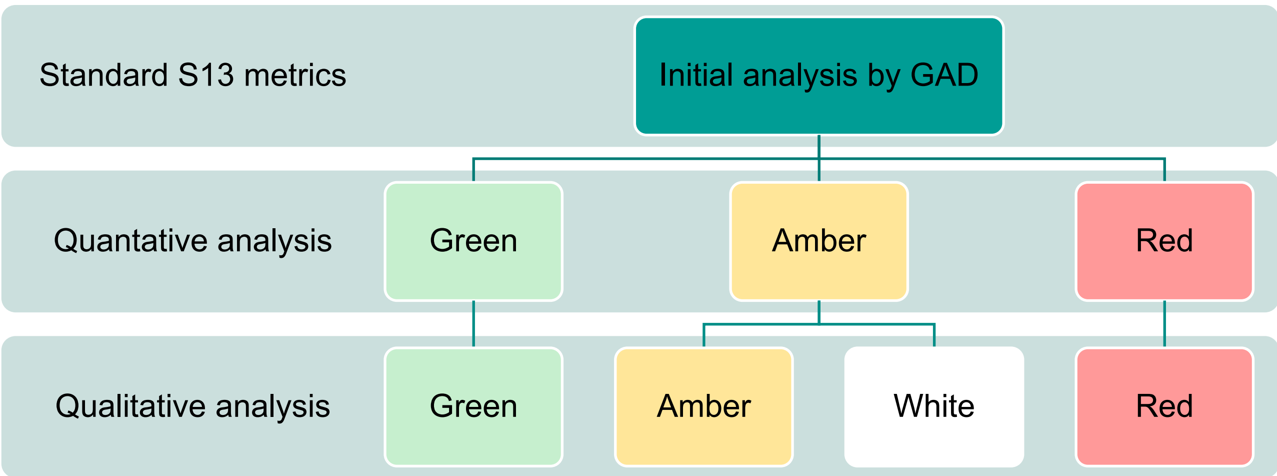
C.21 The 2016 exercise used red, amber and green ('RAG') flags for the solvency measure, where amber and red flags were raised when a fund breached thresholds set by GAD. For the 2019 exercise, GAD initially adopted the same RAG approach and 2016 thresholds, however the flag allocations were subsequently revised for the solvency measures taking into account to the following:

> The scheme funding position has improved significantly since 2016 (the aggregate funding position on prudent local bases improved from 85% to 98%)

> The size of funds has grown considerably over the past three years to 31 March 2019 but the ability of tax backed employers to increase contributions if required (as measured by core spending power and financing data) has not kept pace. This could pose a risk to the LGPS, for example if there is a severe shock to return seeking asset classes.

C.22 Following discussions with DLUHC, GAD agreed that it is not helpful to raise individual fund flags which have been primarily driven by the relatively larger increase in the size of funds relative to the possible contributions available and introduced the "white" flag. The white flag is an advisory flag that highlights a general risk but does not require action in isolation.

C.23 The chart below illustrates the steps taken by GAD in determining the flag colours for the metrics



C.24 The text box below defines each flag colour:

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 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.

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.

C.25 GAD will assess the position at the time of the 2022 section 13 report and will decide whether to retain the white flag, return to the RAG approach or use other metrics/thresholds that are appropriate for the circumstances of the LGPS at that point in time.

SAB funding level: A fund's funding level using the SAB standard basis

C.26 This measure highlights possible risks to a fund as a result of assets being significantly lower than liabilities, where liabilities are those estimated on the SAB standard basis detailed in Appendix G.

C.27 A fund in deficit will need to pay additional contributions in order to meet the liabilities that have already been accrued.

C.28 This measure assesses the relative funding levels of individual funds. All funds have been ordered by this measure (highest funding level first) and the five funds ranked 83 to 87 out of 88 (i.e. not including Environment Agency Closed Fund) are assigned an amber code. All other funds are assigned a green colour code.

C.29 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised.

Open fund: Whether the fund is open to new members

C.30 A scheme that is closed to new members will be closer to maturity than a scheme which is still open. This creates a possible risk to sponsoring employees as there is less scope to make regular contributions and receive investment returns on those contributions. Additionally, if problems do occur with the scheme funding level, the reduced time to maturity of the scheme means that additional contributions must be spread over a shorter timeframe and could be more volatile as a result.

C.31 This measure is a 'Yes' when a fund is still open to new members and a 'No' otherwise. A 'Yes' results in a green colour code, while a 'No' results in a red colour code. As at 31 March 2019, the Environment Agency Closed Fund is the only closed fund. However, given that this fund has a DEFRA guarantee we consider it appropriate to set the flag to green in this circumstance.

C.32 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised.

Non-statutory members: The proportion of members within the fund who are employed by an employer without tax raising powers or statutory backing

C.33 We have considered taxpayer-backed employers of stronger covenant value than other employers. It is important, in this context, that administering authorities and other employers understand the potential cost that may fall on taxpayers in the future if employers without statutory backing or tax raising powers are unable to meet their required contributions and those with such powers become responsible for the accrued costs.

C.34 Data for this measure has been taken from the publicly available 'Local government pension scheme funds local authority data: 2019 to 20120' published by DLUHC here. The data contains the number of employees within each fund by employer group, where:

> Group 1 refers to local authorities and connected bodies

> Group 2 refers to centrally funded public sector bodies

> Group 3 refers to other public sector bodies and

> Group 4 refers to private sector, voluntary sector and other bodies

C.35 For the purposes of this measure, and unless information has been provided to the contrary, it has been assumed that employers listed under groups 1 and 2 are those with tax raising powers or statutory backing and that employers listed under groups 3 and 4 are those without tax raising powers or statutory backing.

C.36 The measure therefore gives the proportion of members within the fund that are/were employed by group 1 and 2 employers as a proportion of all members within the fund.

C.37 Under this measure a fund has been allocated an amber colour code if its proportion of members who are employed by an employer without tax raising powers or statutory backing is between 25% and 50%, a red colour code would allocated if the proportion is more than 50%.and a green colour code in all other cases.

C.38 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised.

Asset shock: The change in average employer contribution rates as a percentage of Core Spending Power or financing data after a 15% fall in value of return-seeking assets

C.39 This measure shows the effect on total employer contribution rates of a one-off decrease in the value of a fund's return seeking assets equal to 15% of the value of those assets expressed as a percentage of Core Spending Power or financing data. Defensive assets are assumed to be unaffected.

C.40 For the purposes of this measure liabilities have been restated on the standardised best estimate basis and deficit recovery periods have been standardised using a period of 20 years to ensure that results are comparable.

C.41 For the scenario where a fund is in deficit after the asset shock (the funding level is less than 100% after the shock) and the threshold has been breached, then an amber flag is raised. However, where the fund is in surplus after the shock and the fund had breached the threshold, the fund will not raise a flag but the risk remains that such an event could bring forward the need to increase contributions.

C.42 Return-seeking asset classes are assumed to be:

> Equities (UK, Overseas and Unquoted or private equities)

> Property

> Infrastructure investments which are equity type

> "Other" return seeking investment

Defensive asset classes are assumed to be:

> Cash

> Bonds (Gilts, Corporate Bonds or index linked)

> "Other" defensive investments

C.43 We calculated the emerging deficit from the shock following a 15% fall in return seeking assets which would be attributed to the employers covered by core spending or financing data (which we refer to as "% tax raising employers" below):

$$\text{New Deficit} = (\text{Pre stress asset value} - \text{post stress asset value}) \times \%\ \text{Tax raising employers}$$

We spread this over 20 years of annual payments and express as a percentage of Core Spending Power (or financing data for Welsh funds)

$$\frac{\text{New Deficit}}{\bar{a}_{20} \times \text{Core Spending Power}}$$

Where:

> new deficit is calculated on the standardised best estimate basis as at 31 March 2019

> $\bar{a}_{20}$ is a continuous annuity over the 20-year deficit recovery period at the rate of interest equal to $\frac{(1+i)}{(1+e)} - 1$.

> i is the nominal discount rate assumption on the standardised best estimate basis.

> e is the general earnings inflation assumption on the standardised best estimate basis

C.44 A fund is allocated an amber colour code if its result is above 3% and a green colour code otherwise.

C.45 For those funds with no/low core spending, the measure considered the change of contribution rate and was expressed as a percentage of pensionable pay, with an amber flag raised if that was greater than 5% and is in deficit after the asset shock. No results are available for the Environment Agency Closed Fund as there are no remaining active members within the fund with which to calculate contribution rates.

C.46 As set out in methodology section above, GAD undertook a subsequent qualitative analysis to consider whether it was felt that the risk identified was potentially material to the fund, and hence whether the amber flag should be maintained.

Employer default: The change in average employer contribution rates as a percentage of payroll if all employers without tax raising powers or statutory backing default on their existing deficits

C.47 LGPS regulations require employers to pay contributions set in the valuation. DLUHC has confirmed that:

- there is a guarantee of LGPS pension liabilities by a public body
- that public body is incapable of becoming insolvent, and
- the governing legislation is designed to ensure the solvency and long term economic efficiency of the Scheme.

C.48 It is important, in this context, that administering authorities and other employers understand the potential cost that may fall on taxpayers in the future if employers without statutory backing or tax raising powers are unable to meet their required contributions and those with such powers become responsible for the accrued costs.

C.49 A fund's deficit will not change as a result of the default, but as the deficit is spread over a smaller number of employers, the contribution rate for each remaining employer will increase.

C.50 For the purposes of this measure liabilities have been restated on the standardised best estimate basis and deficit recovery periods have been standardised using a period of 20 years to ensure that results are comparable.

C.51 For funds in surplus under the standardised best estimate basis, the flag colour for a fund is green, as there would be no deficits attributed to non-taxed backed employer, therefore the risk has been mitigated. The measure therefore considers those funds in deficit on the standardised best estimate basis.

C.52 We calculated the amount of deficit attributed to tax raising authorities if other public sector bodies & private sector, voluntary sector and other bodies were to default:

$$\text{Share of Deficit} = \text{Deficit} \times \%\ \text{non} - \text{tax raising employers}$$

C.53 We spread this over 20 years of annual payments and express as a percentage of Core Spending Power for most funds (Welsh funds use financing data and funds with no/low Core Spending use pensionable pay, as set out in C.55 below).

$$\frac{(\text{Share of Deficit})}{(\bar{a}_{20} \times \text{Core Spending Power})}$$

Where:

- Share of deficit is calculated on the standardised best estimate basis as at 31 March 2019
- $\bar{a}_{20}$ is a continuous annuity over the 20 year deficit recovery period at the rate of interest equal to $\frac{(1+i)}{(1+e)} - 1$.
- i is the nominal discount rate assumption on the standardised best estimate basis.
- e is the general earnings inflation assumption on the standardised best estimate basis

C.54 A fund is allocated an amber colour code if its result is greater than 3% and a green colour code otherwise.

C.55 For those funds with no/low core spending, the change of contribution rate was expressed as a percentage of pensionable pay, with an amber flag raised if that was greater than 2% and is in deficit after the asset shock. No results are available for the Environment Agency Closed Fund as there are no remaining active members within the fund with which to calculate contribution rates and Environmental agency closed as there is no SF3 data for the fund.

C.56 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised.

Solvency measures – by fund

Table C2: Solvency measures by fund

Pension fund	Open fund	SAB funding level	Non-Statutory employees	Asset shock	Employer default
Avon Pension Fund	Yes	106.0%	5.1%	2.2%	Surplus
Bedfordshire Pension Fund	Yes	89.3%	6.8%	2.2%	0.2%
Buckinghamshire County Council Pension Fund	Yes	102.0%	4.3%	2.1%	Surplus
Cambridgeshire Pension Fund	Yes	110.9%	9.2%	2.7%	Surplus
Cardiff and Vale of Glamorgan Pension Fund	Yes	104.2%	6.4%	1.5%	Surplus
Cheshire Pension Fund	Yes	124.9%	7.2%	Surplus	Surplus
City and County of Swansea Pension Fund	Yes	96.8%	3.7%	1.9%	0.0%
City of Westminster Pension Fund	Yes	111.2%	10.4%	2.9%	Surplus
Clwyd Pension Fund	Yes	103.0%	4.8%	1.4%	Surplus
Cornwall Pension Fund	Yes	98.7%	6.0%	1.3%	0.0%
Cumbria Local Government Pension Scheme	Yes	125.0%	6.8%	Surplus	Surplus
Derbyshire Pension Fund	Yes	115.8%	4.8%	Surplus	Surplus
Devon County Council Pension Fund	Yes	95.7%	5.2%	2.3%	0.1%
Dorset County Pension Fund	Yes	96.2%	4.7%	2.2%	0.1%
Durham County Council Pension Fund	Yes	98.0%	3.4%	2.4%	0.0%
Dyfed Pension Fund	Yes	129.0%	3.7%	Surplus	Surplus
East Riding Pension Fund	Yes	120.0%	2.6%	Surplus	Surplus
East Sussex Pension Fund	Yes	118.7%	1.7%	Surplus	Surplus
Essex Pension Fund	Yes	115.1%	9.1%	2.3%	Surplus
Gloucestershire County Council Pension Fund	Yes	109.9%	9.5%	2.4%	Surplus

Pension fund	Open fund	SAB funding level	Non-Statutory employees	Asset shock	Employer default
Greater Gwent (Torfaen) Pension Fund	Yes	97.7%	7.8%	1.7%	0.0%
Greater Manchester Pension Fund	Yes	123.3%	22.6%	Surplus	Surplus
Gwynedd Pension Fund	Yes	123.9%	3.3%	Surplus	Surplus
Hampshire County Council Pension Fund	Yes	103.6%	3.4%	2.6%	Surplus
Hertfordshire County Council Pension Fund	Yes	121.2%	5.4%	Surplus	Surplus
Isle of Wight Council Pension Fund	Yes	118.0%	2.7%	Surplus	Surplus
Islington Council Pension Fund	Yes	94.0%	6.1%	3.1%	0.1%
Kent County Council Pension Fund	Yes	107.4%	8.6%	2.5%	Surplus
Lancashire County Pension Fund	Yes	122.0%	8.2%	Surplus	Surplus
Leicestershire County Council Pension Fund	Yes	102.8%	1.4%	2.2%	Surplus
Lincolnshire Pension Fund	Yes	102.8%	2.8%	2.3%	Surplus
London Borough of Barking and Dagenham Pension Fund	Yes	100.4%	4.7%	2.7%	0.0%
London Borough of Barnet Pension Fund	Yes	89.8%	30.5%	1.4%	0.7%
London Borough of Bexley Pension Fund	Yes	124.0%	4.3%	Surplus	Surplus
London Borough of Brent Pension Fund	Yes	81.0%	17.1%	1.6%	0.6%
London Borough of Bromley Pension Fund	Yes	136.0%	12.9%	Surplus	Surplus
London Borough of Camden Pension Fund	Yes	106.5%	11.2%	3.5%	Surplus
London Borough of Croydon Pension Fund	Yes	98.0%	5.5%	1.5%	0.0%
London Borough of Ealing Pension Fund	Yes	106.0%	0.7%	1.7%	Surplus
London Borough of Enfield Pension Fund	Yes	110.2%	1.4%	1.5%	Surplus
London Borough of Hackney Pension Fund	Yes	105.2%	2.1%	2.7%	Surplus

Pension fund	Open fund	SAB funding level	Non-Statutory employees	Asset shock	Employer default
London Borough of Hammersmith and Fulham Pension Fund	Yes	101.3%	6.0%	2.7%	Surplus
London Borough of Haringey Pension Fund	Yes	108.7%	1.2%	2.7%	Surplus
London Borough of Harrow Pension Fund	Yes	100.8%	0.3%	2.2%	0.0%
London Borough of Havering Pension Fund	Yes	86.4%	1.5%	1.3%	0.0%
London Borough of Hillingdon Pension Fund	Yes	95.4%	1.2%	1.5%	0.0%
London Borough of Hounslow Pension Fund	Yes	103.2%	10.7%	2.4%	Surplus
London Borough of Lambeth Pension Fund	Yes	106.6%	1.0%	2.2%	Surplus
London Borough of Lewisham Pension Fund	Yes	109.5%	6.0%	2.0%	Surplus
London Borough of Merton Pension Fund	Yes	110.6%	2.1%	2.4%	Surplus
London Borough of Newham Pension Fund	Yes	100.8%	6.9%	1.8%	0.0%
London Borough of Redbridge Pension Fund	Yes	99.0%	10.9%	2.1%	0.0%
London Borough of Southwark Pension Fund	Yes	111.8%	3.0%	2.7%	Surplus
London Borough of Tower Hamlets Pension Fund	Yes	112.7%	6.4%	2.5%	Surplus
London Borough of Waltham Forest Pension Fund	Yes	87.0%	3.4%	1.6%	0.1%
Merseyside Pension Fund	Yes	115.0%	11.6%	3.6%	Surplus
Norfolk Pension Fund	Yes	107.4%	8.4%	2.4%	Surplus
North Yorkshire Pension Fund	Yes	123.4%	4.8%	Surplus	Surplus
Northamptonshire Pension Fund	Yes	106.1%	4.8%	2.3%	Surplus
Northumberland County Council Pension Fund	Yes	109.9%	3.9%	2.8%	Surplus
Nottinghamshire County Council Pension Fund	Yes	100.2%	4.8%	3.2%	0.0%
Oxfordshire County Council Pension Fund	Yes	105.2%	4.3%	3.2%	Surplus

Pension fund	Open fund	SAB funding level	Non-Statutory employees	Asset shock	Employer default
Powys County Council Pension Fund	Yes	101.0%	5.5%	1.3%	0.0%
Rhondda Cynon Taf County Borough Council Pension Fund	Yes	107.4%	5.8%	2.4%	Surplus
Royal Borough of Greenwich Pension Fund	Yes	99.4%	3.4%	2.6%	0.0%
Royal Borough of Kensington and Chelsea Pension Fund	Yes	146.5%	4.0%	Surplus	Surplus
Royal Borough of Kingston Upon Thames Pension Fund	Yes	107.8%	7.4%	2.1%	Surplus
Royal County of Berkshire Pension Fund	Yes	77.2%	6.0%	1.5%	0.3%
Shropshire County Pension Fund	Yes	104.1%	9.5%	2.1%	Surplus
Somerset County Council Pension Fund	Yes	91.0%	8.9%	2.5%	0.3%
South Yorkshire Pension Fund	Yes	119.0%	9.3%	Surplus	Surplus
Staffordshire Pension Fund	Yes	111.8%	5.9%	3.0%	Surplus
Suffolk Pension Fund	Yes	121.4%	4.9%	Surplus	Surplus
Surrey Pension Fund	Yes	104.7%	4.4%	2.3%	Surplus
Sutton Pension Fund	Yes	99.1%	2.4%	1.3%	0.0%
Teesside Pension Fund	Yes	118.1%	7.2%	Surplus	Surplus
Tyne and Wear Pension Fund	Yes	114.0%	12.1%	4.3%	Surplus
Wandsworth Council Pension Fund	Yes	132.2%	4.4%	Surplus	Surplus
Warwickshire Pension Fund	Yes	108.9%	0.0%	3.0%	Surplus
West Midlands Pension Fund	Yes	106.8%	8.6%	2.8%	Surplus
West Sussex County Council Pension Fund	Yes	147.5%	4.7%	Surplus	Surplus
West Yorkshire Pension Fund	Yes	112.1%	12.7%	4.1%	Surplus
Wiltshire Pension Fund	Yes	111.6%	27.0%	2.9%	Surplus

Pension fund	Open fund	SAB funding level	Non-Statutory employees	Asset shock	Employer default
Worcestershire County Council Pension Fund	Yes	102.0%	7.9%	2.5%	Surplus
City of London Corporation Pension Fund*	Yes	92.4%	10.9%	3.6%	0.5%
London Pensions Fund Authority Pension Fund*	Yes	108.6%	18.3%	7.3%	Surplus
Environment Agency Active Fund*	Yes	132.8%	N/A	Surplus	N/A
Environment Agency Closed Fund*	No	64.6%	N/A	N/A	N/A

Notes:
1. Funding levels are on the SAB standard basis.
2. The liability value and salary roll figures in the maturity indicator are as at 31 March 2019. The liability value was calculated on the standardised best estimate basis.
3. For funds marked * against asset shock we have assessed the shock as a percentage of pensionable pay (as we did in the 2016 and the dry run).

Appendix D: Long term cost efficiency

D.1 We developed a series of relative and absolute considerations to help assess whether the contributions met the aims of section 13 under long term cost efficiency. This appendix contains a description of:

- Mapping of long term cost efficiency considerations to measures adopted
- Methodology used for long term cost efficiency measures
- Engagement with funds which flagged on LTCE measures
- Table of outcomes for each fund

Long term cost efficiency – considerations and methodology

Table D1: Long term cost efficiency considerations and measures

Consideration	Measure Used
Relative considerations:	
The implied deficit recovery period	**Deficit Period:** Implied deficit recovery period calculated on a standardised best estimate basis (SAB Actuarial (section 13) key indicator 2)
The investment return required to achieve full funding	**Required Return:** The required investment return rates to achieve full funding in 20 years' time on a standardised best estimate basis (SAB Actuarial (section 13) key indicator 3)
The pace at which the deficit is expected to be paid off	**Repayment Shortfall:** The difference between: actual contribution in excess of GAD's best estimate of future service cost and the annual deficit recovery contributions required as a percentage of payroll to pay off the deficit in 20 years, where the deficit is calculated on a standardised best estimate basis
Absolute Considerations:	
The extent to which the required investment return above is less than the estimated future return being targeted by a fund's investment strategy	**Return Scope:** The required investment return rates as calculated in required return (i.e. SAB Actuarial (section 13) key indicator 3), compared with the fund's expected best estimate future returns assuming current asset mix maintained (SAB Actuarial (section 13) key indicator 3)
The extent to which any deficit recovery plan can be reconciled with, and can be demonstrated to be a continuation of, the previous deficit recovery plan, after allowing for actual fund experience	**Deficit Reconciliation:** Confirmation that the deficit period can be demonstrated to be a continuation of the previous deficit recovery plan, after allowing for actual fund experience

D.2 For the 2019 section 13 report, GAD has adopted the same measures as those in 2016. However, a further qualitative step was introduced to consider whether it was felt that the risk identified was potentially material to the fund.

D.3 Three of these measures were selected from the Actuarial section 13 KPIs defined by the SAB. The selected SAB measures have been augmented with two additional measures which we believe are appropriate in helping to assess whether the aims of section 13 are met.

D.4 The analyses and calculations carried out under these long term cost efficiency measures are approximate. They rely on the accuracy of the data provided by the respective local firms of actuarial advisors.

D.5 Although the calculations are approximate, we consider they are sufficient for the purposes of identifying which funds are a cause for concern. While the measures should not represent targets, these measures help us determine whether a more detailed review is required for example, we would have concern where multiples measures triggered amber for a given fund.

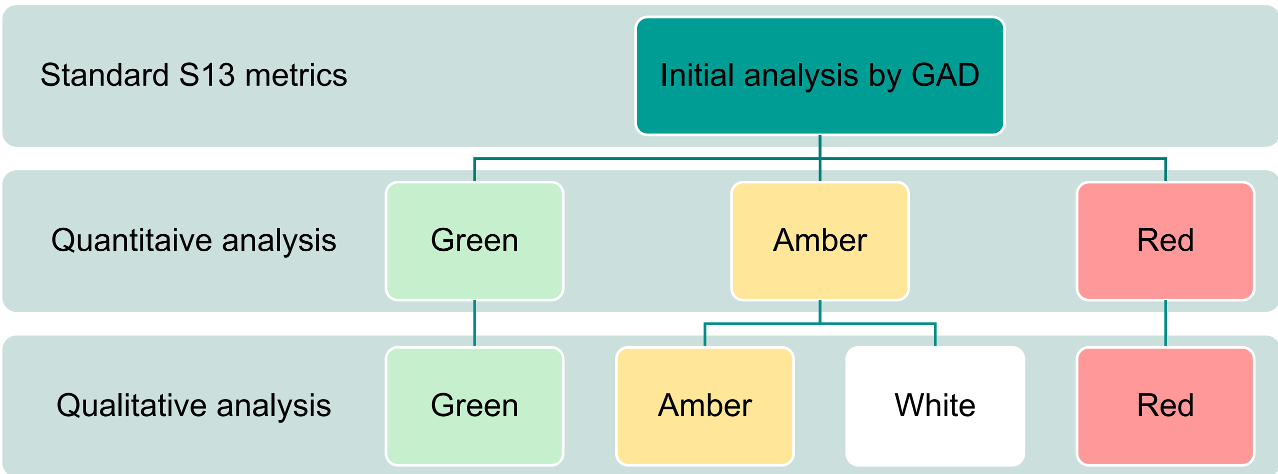
Long term cost efficiency measures – methodology

D.6 We detail the methodology behind the measures used to assess a fund's long term cost efficiency position below. Some of the measures listed below were calculated using a market consistent set of assumptions. For more information on this best estimate basis please see Appendix G.

D.7 The 2016 exercise used Red, Amber or Green ('RAG') flags for the solvency measure, where amber and red flags were raised when a fund breached thresholds set by GAD. For the 2019 exercise, GAD initially adopted the same RAG approach and 2016 thresholds, however the flag allocation was subsequently revised for the long term cost efficiency measures as GAD wished to concentrate on funds which raised multiple amber flags. GAD also introduced a subsequent qualitative measure, which considered the funding level relative to contributions graph, which assisted GAD on determining whether to flag and/or engage with a fund.

D.8 Following discussions with DLUHC, GAD agreed that it is not helpful to raise individual fund flags but rather concentrate on funds with multiple flags and this resulted in the introduction of a "white" flag. The white flag is an advisory flag that highlights a general risk but does not require action in isolation.

D.9 The chart below illustrates the steps taken by GAD in determining the flag colours for the metrics



D.10 The text box below defines each flag colour:

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 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.

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.

D.11 GAD will assess the position at the 2022 section 13 and will decide whether to retain the white flag, return to the RAG approach or use other metrics/thresholds that are appropriate for the circumstances of the LGPS at that point in time.

Deficit period: The implied deficit recovery period calculated on a standardised best estimate basis

D.12 This measure is based on SAB Actuarial (section 13) key indicator 2. However, as the SCAPE discount rate used in the SAB standard basis is not market-related, the calculations are done on a standardised best estimate basis.

D.13 The implied deficit recovery period on the standardised best estimate basis was found by solving the following equation for x:

D.14 $$\bar{a}_x = \frac{\text{Deficit on standardised BE basis}}{\text{Annual deficit recovery payment on standardised BE basis}}$$

Where:

- x is the implied deficit recovery period.
- $\bar{a}_x$ is a continuous annuity over x years at the rate of interest equal to $\frac{(1+i)}{(1+e)} - 1$.
- i is the nominal discount rate assumption on the standardised best estimate basis.
- e is the general earnings inflation assumption on the standardised best estimate basis.
- The deficit on the standardised best estimate basis is as at 31 March 2019.
- The annual deficit recovery payment on the standardised best estimate basis is calculated as the difference between the average employer contribution rate for the years 2020/21 to 2022/23, allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund, where deficit contributions are fixed (i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll), and the employer standard contribution rate on the standardised best estimate basis for the years 2020/21 to 2022/23 (which is assumed to be equal to the future cost of accrual of that particular fund).

D.15 Funds that were in surplus or where the implied deficit recovery period was less than 10 years were flagged as green. Those with recovery periods greater than or equal to 10 years were flagged as amber. If there were any funds that were paying contributions at a level that would result in an increase in deficit, they would have been flagged as red.

D.16 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised based on whether multiple flags were raised for a fund.

Required return: The required investment return rates to achieve full funding in 20 years' time on the standardised best estimate basis

D.17 This measure is based on SAB Actuarial (section 13) key indicator 3. However, as the SCAPE discount rate used in the SAB standard basis is not market related, the calculations are done on a standardised best estimate basis.

D.18 The following assumptions were made for the purposes of this calculations:

> Time 0 is 31 March 2019.

> Time 20 is 31 March 2039.

> $\mathrm{A_0}$ is the value of the fund's assets at time 0, and was obtained from the data provided by the local firms of actuarial advisors.

> $\mathrm{A_{20}}$ is the projected value of the fund's assets at time 20 (using the equation below)

> $\mathrm{L_0}$ is the value of the fund's liabilities at time 0, on a standardised best estimate basis

> $\mathrm{L_{20}}$ is the projected value of the fund's liabilities at time 20 (using the equation below)

> $\mathrm{C_0}$ is one year's employer contributions paid from time 0

> $\mathrm{C_{0-20}}$ is the total employer contributions payable over the period time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10)

> $\mathrm{B_0}$ is the value of one year's benefits paid (excluding transfers) from time 0

> $\mathrm{B_{0-20}}$ is the total value of benefits payable (excluding transfers) over the period time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10).

> $\mathrm{SCR_0}$ is the standard contribution rate payable from time 0 to time 1 on a standardised best estimate basis.

> $\mathrm{SCR_{0-20}}$ is the standard contribution rate payable from time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10).

> $\mathrm{Sal_0}$ is the salary roll at time 0 and was obtained from the data provided by the local firms of actuarial advisors.

> i is the nominal discount rate assumption on the standardised best estimate basis.

> e is the general earnings assumption on the standardised best estimate basis.

> x is the required investment return that is to be calculated

D.19 The membership profile is assumed to be constant.

D.20 The assets and liabilities at time 20 were then equated and the resulting quadratic equation solved to find the required rate of investment return to achieve full funding, i.e.:

$$A_{20} - L_{20} = 0$$

Where:

- $A_{20} = [A_0 \times (1+x)^{20}] + [(C_{0-20} - B_{0-20}) \times (1+x)^{10}]$
- $L_{20} = [L_0 \text{ x } (1+i)^{20}] + [(SCR_{0-20} - B_{0-20}) \times (1+i)^{10}]$
- $C_{0-20} = C_0 \times 20 \times (1+e)^{10}$
- $B_{0-20} = B_0 \times 20 \times (1+e)^{10}$
- $SCR_{0-20} = Sal_0 \times SCR_0 \times 20 \times (1+e)^{10}$

D.21 Where the required investment return was higher than the nominal discount rate on the standardised best estimate basis (i.e. i where i = 4.30%) funds would be classified as amber, whereas funds were classified as green if the required return was less than i.

D.22 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised based on whether multiple flags were raised for a fund.

Repayment shortfall: The difference between the actual contribution rate net of GAD's best estimate future service cost and the annual deficit recovery contributions (on a standardised best estimate basis and assuming deficit is paid off in 20 years), as a percentage of payroll

D.23 This measure is an extension from the deficit period measure, as it considers the affordability of the deficit on GAD's best estimate basis. For this calculation we determine the difference between:

- The employer contributions in excess of GAD's best estimate future service cost, and
- The required annual deficit recovery contribution rate on a standardised best estimate basis to pay off the deficit in 20 years' time (the 20 year deficit recovery period is based on the SAB Actuarial (section 13) key indicator 3)

D.24 The required annual deficit recovery contribution rate to be paid on a standardised best estimate basis is equal to:

$$\frac{\text{Deficit on standardised best estimate basis}}{\bar{a}_{\mathbf{20}} \times \text{ Salary Roll}}$$

Where:

- The deficit on the standardised best estimate basis is as at 31 March 2019.
- $\bar{a}_{20}$ is a continuous annuity over the 20 year deficit recovery period at the rate of interest equal to $\frac{(1+i)}{(1+e)} - 1$.
- i is the nominal discount rate assumption on the standardised best estimate basis.
- e is the general earnings inflation assumption on the standardised best estimate basis.
- The salary roll is as at 31 March 2019 and has not been adjusted.

D.25 The difference in deficit recovery contribution rates is then defined as:

$$(\text{Avg ER cont rate paid} - \text{ ER SCR on BE basis}) - \frac{\text{Deficit on BE basis}}{\bar{a}_{20} \text{ x Salary Roll}}$$

Where:

- The average employer contribution rate is for the years 2020/21 – 2022/23, allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund where deficit contributions are fixed (i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll).
- The employer standard contribution rate on the standardised best estimate basis is for the years 2020/21 – 2022/23. It is assumed that the standard contribution rate is equal to the future cost of accrual of that particular fund.

D.26 The data required for each of the funds to carry out the above calculation was provided by their respective firms of actuarial advisors.

D.27 Where appropriate data has been restated on the standardised best estimate basis.

D.28 Funds in surplus on GAD's best estimate basis or where the difference in deficit recovery contribution rates is greater than 0% are flagged as green. Where the difference between contribution rates is between 0% and -3%, the funds would be flagged as amber and if the difference in deficit recovery contribution rates is less than -3%, then the fund would be flagged as red.

D.29 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised based on whether multiple flags were raised for a fund.

Return scope: The required investment return rates as calculated in required return, compared with the fund's expected best estimate future returns assuming current asset mix maintained

D.30 This measure is based on SAB Actuarial (section 13) key indicator 3.

D.31 The required investment return (x) calculated in the required return measure was compared against the best estimate investment return expected from the fund's assets held on 31 March 2019.

D.32 The asset data used in this calculation was provided by each fund's respective firm of actuarial advisors.

D.33 Funds where the best estimate future returns were higher than the required investment return by 0.5% or more were flagged as green. Those funds where this difference was between 0% and 0.5% would be flagged as amber whilst those where the best estimate returns were lower than the required investment returns were flagged as red.

D.34 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised based on whether multiple flags were raised for a fund.

Deficit reconciliation: Confirmation that the deficit period can be demonstrated to be a continuation of the previous deficit recovery plan, after allowing for actual fund experience

D.35 This measure is used to monitor the change in the deficit recovery end point set locally by the fund at each valuation and what the underlying reasons are for any adverse changes in this period.

D.36 This measure considers the following:

> Whether contributions have decreased since the previous valuations (reducing the burden on current tax payers)

> Whether the deficit recovery end point has moved further into the future, compared with the previous valuation (increasing the burden on future tax payers)

D.37 Funds where both of the above have occurred are flagged amber otherwise funds are flagged green. There was no allowance for white flags as this measure indicates a material issue that funds should be aware of.

Long term cost efficiency measures – engagement

D.38 The metrics set out above and qualitative analysis of funds funding position relative to the contribution helped determine which funds GAD would engage with to discuss the potential material and material risks and the general issues that arose from the analysis. The approach used for determining whether to engage with funds was based on the approach set out in paragraph D.7, however GAD undertook two types of engagements:

> “Full” Engagement –discussion with funds for which a combination of flags for were raised, which raised material or potentially material risks

> “Light” Engagement – discussion with funds where a combination of flags was not raised but which were close to flagging and therefore may want to take action to avoid the likelihood of being flagged in the section 13 report following the 2022 valuation

Full engagement

D.39 The four funds for which GAD held a “Full” engagement with set out in the main report are City of London Corporation Pension Fund, Royal County of Berkshire Pension Fund, Islington County Pension Fund and Devon County Council Pension Fund. The engagement with all funds was constructive.

D.40 Following the initial engagement Islington County Pension Fund committed to making an additional contribution which was sufficient to remove the flags raised.

D.41 Further Devon County Council Pension Fund confirmed a post valuation investment had been made which was again sufficient prove their position to remove the concerns

Light Engagement

D.42 GAD also engaged with funds with funds where a combination of flags were not raised but where some flags may been raised and where the funding level and contribution levels were low relative to the other LGPS funds. The funds which GAD engaged with were:

> Dorset County Pension Fund (Barnett Waddingham)

> London Borough of Newham Pension Fund (Barnett Waddingham)

> Royal Borough of Greenwich Pension Fund (Barnett Waddingham)

> Somerset County Council Pension Fund (Barnett Waddingham)

> London Borough of Waltham Forest (Mercer)

D.43 The engagement with these funds was positive and GAD explained that whilst these funds were not part of the “full” engagement there were concerns regarding the position of these funds and that the funds may wish to take action in order to reduce the likelihood of being flagged in the section 13 report following the 2022 valuation.

Long term cost efficiency measures – by fund

Table D2: Long term cost efficiency measures by fund

Pension fund	Maturity (rank)	Deficit period (rank)	Required return (rank)	Repayment shortfall	Return scope (rank)	Deficit recovery plan
Avon Pension Fund	7.5 (52)	Surplus	3.3% (48)	Surplus	0.8% (61)	Green
Bedfordshire Pension Fund	6.6 (84)	8 (76)	3.4% (51)	5.7%	0.3% (77)	Green
Buckinghamshire County Council Pension Fund	6.6 (85)	Surplus	3.4% (54)	Surplus	0.6% (70)	Green
Cambridgeshire Pension Fund	7 (68)	Surplus	3.1% (39)	Surplus	1.6% (23)	Green
Cardiff and Vale of Glamorgan Pension Fund	7.2 (65)	Surplus	3.6% (67)	Surplus	0.7% (67)	Green
Cheshire Pension Fund	7.7 (41)	Surplus	2.4% (10)	Surplus	1.2% (38)	Green
City and County of Swansea Pension Fund	7.3 (59)	6 (74)	3.7% (72)	3.9%	0.9% (53)	Green
City of Westminster Pension Fund	10.9 (1)	Surplus	0.3% (1)	Surplus	4.3% (1)	Green
Clwyd Pension Fund	7.3 (61)	Surplus	3% (35)	Surplus	0.9% (55)	Green
Cornwall Pension Fund	7.3 (62)	3 (69)	3.4% (55)	5.7%	0.3% (78)	Green
Cumbria Local Government Pension Scheme	8 (26)	Surplus	2.4% (12)	Surplus	1.2% (35)	Green
Derbyshire Pension Fund	6.9 (73)	Surplus	3.2% (40)	Surplus	1% (50)	Green
Devon County Council Pension Fund	7.6 (43)	15 (85)	4.2% (86)	0.8%	0.6% (71)	Green
Dorset County Pension Fund	7.5 (53)	9 (78)	4% (83)	2.2%	0.3% (79)	Green
Durham County Council Pension Fund	8 (29)	5 (71)	3.7% (70)	4.1%	-0.1% (85)	Green
Dyfed Pension Fund	6.8 (76)	Surplus	2.9% (26)	Surplus	1.6% (19)	Green
East Riding Pension Fund	7.3 (58)	Surplus	2.9% (25)	Surplus	1.7% (18)	Green
East Sussex Pension Fund	7.5 (50)	Surplus	3.1% (38)	Surplus	1.2% (34)	Green
Essex Pension Fund	7 (70)	Surplus	2.6% (14)	Surplus	1.9% (13)	Green

Pension fund	Maturity (rank)	Deficit period (rank)	Required return (rank)	Repayment shortfall	Return scope (rank)	Deficit recovery plan
Gloucestershire County Council Pension Fund	7.7 (38)	Surplus	2.3% (9)	Surplus	2.1% (7)	Green
Greater Gwent (Torfaen) Pension Fund	7.4 (56)	6 (73)	3.8% (75)	3.5%	0.8% (63)	Green
Greater Manchester Pension Fund	8.6 (15)	Surplus	2.6% (18)	Surplus	1.7% (16)	Green
Gwynedd Pension Fund	6.8 (81)	Surplus	2.9% (24)	Surplus	1.7% (17)	Green
Hampshire County Council Pension Fund	6.9 (72)	Surplus	3.9% (80)	Surplus	0.3% (80)	Green
Hertfordshire County Council Pension Fund	6.8 (77)	Surplus	2.6% (16)	Surplus	1.1% (44)	Green
Isle of Wight Council Pension Fund	8.7 (13)	Surplus	2.6% (15)	Surplus	1.9% (10)	Green
Islington Council Pension Fund	8.5 (17)	10 (80)	3.9% (79)	3.0%	0.7% (68)	Green
Kent County Council Pension Fund	6.9 (74)	Surplus	3.2% (41)	Surplus	1.3% (32)	Green
Lancashire County Pension Fund	7.5 (51)	Surplus	2.9% (23)	Surplus	1.5% (25)	Green
Leicestershire County Council Pension Fund	6.8 (78)	Surplus	2.9% (27)	Surplus	1.1% (41)	Green
Lincolnshire Pension Fund	6.9 (71)	Surplus	3% (33)	Surplus	1.6% (22)	Green
London Borough of Barking and Dagenham Pension Fund	7.5 (45)	2 (65)	3.5% (63)	5.1%	1% (48)	Amber
London Borough of Barnet Pension Fund	8 (28)	10 (79)	3.6% (66)	4.4%	0.2% (81)	Green
London Borough of Bexley Pension Fund	7.4 (55)	Surplus	2.6% (17)	Surplus	1.9% (14)	Green
London Borough of Brent Pension Fund	9.1 (7)	10 (81)	3% (32)	8.6%	1.6% (20)	Green
London Borough of Bromley Pension Fund	7.5 (46)	Surplus	1.9% (3)	Surplus	2.6% (4)	Green
London Borough of Camden Pension Fund	9.6 (5)	Surplus	2% (4)	Surplus	2.9% (3)	Green
London Borough of Croydon Pension Fund	6.9 (75)	4 (70)	3.5% (60)	4.8%	0.9% (56)	Green
London Borough of Ealing Pension Fund	7.7 (40)	Surplus	3.1% (37)	Surplus	1.1% (45)	Green
London Borough of Enfield Pension Fund	6.8 (79)	Surplus	3.4% (53)	Surplus	0.5% (73)	Green
London Borough of Hackney Pension Fund	8.2 (22)	Surplus	2.2% (8)	Surplus	2.1% (9)	Green
London Borough of Hammersmith and Fulham Pension Fund	10.6 (4)	Surplus	3.8% (74)	Surplus	0.4% (75)	Green

Pension fund	Maturity (rank)	Deficit period (rank)	Required return (rank)	Repayment shortfall	Return scope (rank)	Deficit recovery plan
London Borough of Haringey Pension Fund	9.1 (8)	Surplus	3.4% (50)	Surplus	0.8% (59)	Green
London Borough of Harrow Pension Fund	8.4 (20)	1 (64)	3.6% (64)	5.3%	1.1% (43)	Green
London Borough of Havering Pension Fund	8 (27)	12 (84)	3.7% (69)	4.0%	0.1% (83)	Green
London Borough of Hillingdon Pension Fund	8.1 (25)	8 (75)	3.8% (76)	3.4%	-0.1% (86)	Green
London Borough of Hounslow Pension Fund	7.6 (44)	Surplus	3.4% (57)	Surplus	1% (47)	Green
London Borough of Lambeth Pension Fund	10.7 (2)	Surplus	2.7% (20)	Surplus	1.6% (24)	Green
London Borough of Lewisham Pension Fund	9 (9)	Surplus	3.3% (44)	Surplus	0.5% (72)	Green
London Borough of Merton Pension Fund	7.5 (49)	Surplus	3.5% (61)	Surplus	1% (49)	Green
London Borough of Newham Pension Fund	7.5 (48)	2 (67)	4% (82)	2.3%	-0.3% (87)	Green
London Borough of Redbridge Pension Fund	7.7 (37)	5 (72)	3.9% (81)	2.4%	0.5% (74)	Amber
London Borough of Southwark Pension Fund	8.4 (21)	Surplus	2.8% (22)	Surplus	1.5% (28)	Green
London Borough of Tower Hamlets Pension Fund	8.8 (12)	Surplus	2.1% (6)	Surplus	2.2% (5)	Green
London Borough of Waltham Forest	8.1 (24)	11 (82)	3.6% (65)	4.2%	0.8% (65)	Green
Merseyside Pension Fund	9.2 (6)	Surplus	3.3% (47)	Surplus	1.2% (36)	Green
Norfolk Pension Fund	7.7 (39)	Surplus	3% (28)	Surplus	1.4% (31)	Green
North Yorkshire Pension Fund	6.5 (86)	Surplus	3% (31)	Surplus	0.9% (51)	Green
Northamptonshire Pension Fund	7.3 (63)	Surplus	3% (34)	Surplus	1.5% (27)	Green
Northumberland County Council Pension Fund	8.8 (11)	Surplus	3.2% (43)	Surplus	1.1% (42)	Green
Nottinghamshire County Council Pension Fund	6.7 (82)	2 (66)	3.6% (68)	4.5%	0.9% (52)	Green
Oxfordshire County Council Pension Fund	7.2 (64)	Surplus	3.7% (71)	Surplus	0.9% (54)	Green
Powys County Council Pension Fund	8.1 (23)	1 (63)	3.2% (42)	7.3%	0.8% (64)	Green

Pension fund	Maturity (rank)	Deficit period (rank)	Required return (rank)	Repayment shortfall	Return scope (rank)	Deficit recovery plan
Rhondda Cynon Taf County Borough Council Pension Fund	7.9 (32)	Surplus	3.5% (62)	Surplus	0.8% (62)	Green
Royal Borough of Greenwich Pension Fund	7 (69)	9 (77)	4.2% (85)	0.8%	0.2% (82)	Green
Royal Borough of Kensington and Chelsea Pension Fund	8.4 (18)	Surplus	2% (5)	Surplus	3.1% (2)	Green
Royal Borough of Kingston Upon Thames Pension Fund	7.5 (47)	Surplus	3.3% (49)	Surplus	1.1% (39)	Green
Royal county of Berkshire Pension Fund	6.6 (83)	25 (87)	4.6% (87)	-1.5%	0.1% (84)	Green
Shropshire County Pension Fund	7.9 (31)	Surplus	3.5% (59)	Surplus	0.6% (69)	Green
Somerset County Council Pension Fund	7.8 (36)	12 (83)	3.9% (78)	2.9%	1.6% (21)	Green
South Yorkshire Pension Fund	7.8 (34)	Surplus	3% (30)	Surplus	1.4% (30)	Green
Staffordshire Pension Fund	8.7 (14)	Surplus	2.5% (13)	Surplus	1.9% (11)	Green
Suffolk Pension Fund	7.4 (54)	Surplus	2.4% (11)	Surplus	1.9% (12)	Green
Surrey Pension Fund	7.2 (66)	Surplus	3.4% (52)	Surplus	1.1% (40)	Green
Sutton Pension Fund	6.4 (87)	2 (68)	3.3% (46)	5.8%	0.7% (66)	Green
Teesside Pension Fund	8.5 (16)	Surplus	3.8% (73)	Surplus	0.9% (57)	Green
Tyne and Wear Pension Fund	8.9 (10)	Surplus	3.5% (58)	Surplus	1.2% (37)	Green
Wandsworth Council Pension Fund	8.4 (19)	Surplus	2.1% (7)	Surplus	2.1% (8)	Green
Warwickshire Pension Fund	7.3 (60)	Surplus	3.3% (45)	Surplus	1.1% (46)	Green
West Midlands Pension Fund	7.9 (30)	Surplus	2.7% (21)	Surplus	1.5% (26)	Green
West Sussex County Council Pension Fund	6.8 (80)	Surplus	1.7% (2)	Surplus	2.2% (6)	Green
West Yorkshire Pension Fund	7.3 (57)	Surplus	3.8% (77)	Surplus	0.8% (60)	Green
Wiltshire Pension Fund	7.1 (67)	Surplus	2.6% (19)	Surplus	1.5% (29)	Green
Worcestershire County Council Pension Fund	7.7 (42)	Surplus	3% (36)	Surplus	1.8% (15)	Green
City of London Corporation Pension Fund	7.8 (35)	15 (86)	4.1% (84)	1.2%	0.3% (76)	Green

Pension fund	Maturity (rank)	Deficit period (rank)	Required return (rank)	Repayment shortfall	Return scope (rank)	Deficit recovery plan
London Pensions Fund Authority Pension Fund	10.6 (3)	Surplus	3.4% (56)	Surplus	0.9% (58)	Green
Environment Agency Active Fund	7.8 (33)	Surplus	3% (29)	Surplus	1.3% (33)	Green
Environment Agency Closed Fund	0 (N/A)	N/A	N/A	N/A	N/A	N/A

Notes:
1. The liability value and salary roll figures in the maturity indicator are as at 31 March 2019. The liability value was calculated on the standardised best estimate basis.

Appendix E: ALM

Why perform an Asset Liability Modelling (ALM) exercise?

E.1 An ALM exercise allows us to simultaneously project the assets and liabilities of the scheme under a range of simulations (known as stochastic economic scenarios), 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.

E.2 A common use of ALM studies is to help scheme managers and sponsors determine investment, contribution and funding policy by illustrating the impact of changing policy on key variables, such as the funding level (i.e. ratio of assets to liabilities), of the scheme under a range of scenarios.

E.3 For this piece of work, we modelled the whole Scheme rather than individual funds and our focus was on variations of the employer contribution rates over time as a broad measure of long term cost efficiency and sustainability relative to the funding available to local authorities. We are primarily interested in the extent to which contribution rates can vary from current levels as well as the projection of funding levels. Consequently, we have assumed that the current investment policy remains in place and is constant over the projection period.

E.4 Stochastic modelling techniques allow us to simulate one thousand economic scenarios – with different outturns and paths of key parameters and variables. The simulations are calibrated to reflect views on expected returns and relative behaviours between key variables, but importantly include an element of randomness in order to capture volatility observed in financial markets. By running the scenario generator many times, the spread of different possible outcomes can be illustrated, and the probability of certain outcomes can be estimated.

E.5 As with all models, the outcomes are a function of the assumptions adopted, and the outcomes are not intended to be predictors of the future but are illustrations of the range of possible outcomes. It is highly unlikely that the assumptions made will be borne out in practice and adjustments might be made to manage any pressures that arise.

E.6 Our study models change in economic outcomes only – we have not looked at any other possible changes such as demographic changes, including mortality, nor management changes such as changes to the investment approach or the impacts of climate change.

Outcomes of our modelling

E.7 The ALM exercise provides underlying projections, under thousands of scenarios, for a number of key variables and metrics of interest, including:

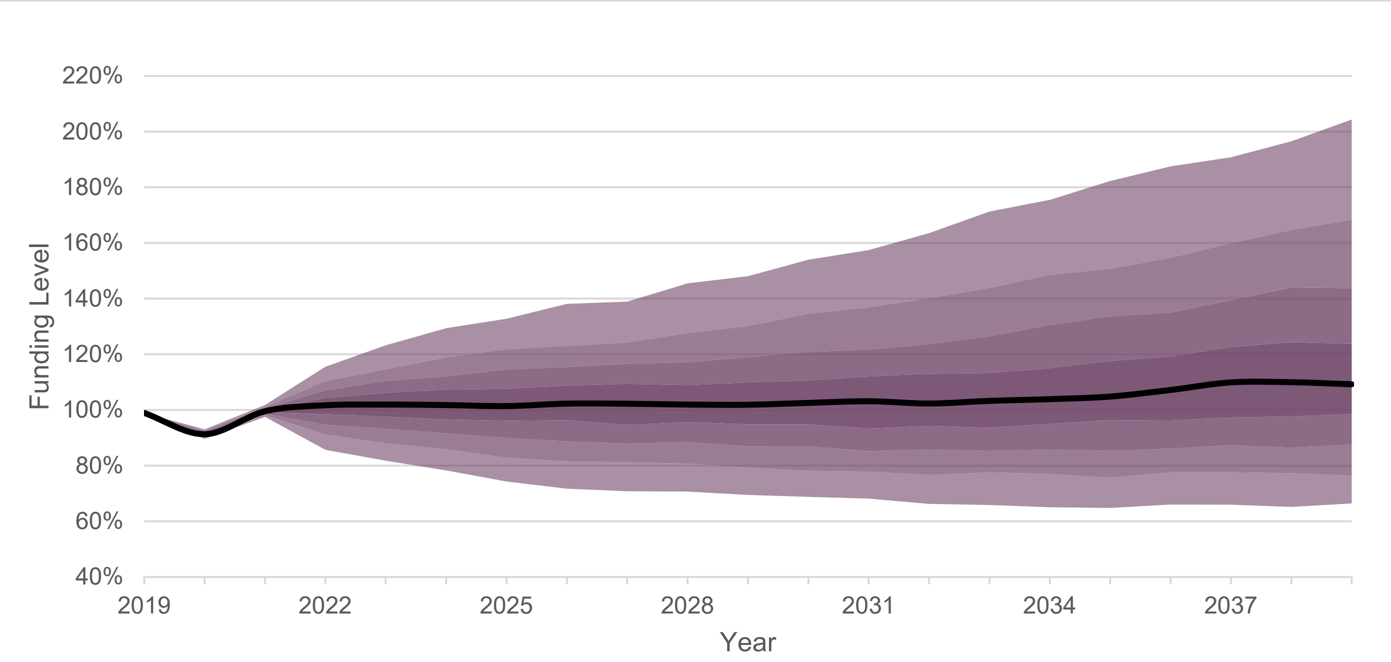
> The scheme's assets
> The scheme's liabilities
> The scheme's funding level
> The contribution rates

E.8 The main report includes illustrations of funding level and contributions (relative to the salary and the level of funding available to local authorities) of the LGPS, as a whole. These illustrations assumed no immediate recovery of assets in 2020/21 as GAD currently hold no information on the extent to which funds have recovered. The illustrations considered the impact with and without a constraint on contribution rates.

E.9 Charts E.1 and E.2 below illustrates the possible impact on funding levels and contribution rates if an allowance was made for the expected recovery of assets for 2020/21 in the projections and assuming that the contributions are not restricted. In the absence of any data available to illustrate the effect of a possible immediate recovery in asset values we have reset the funding level to 100% as at 31 March 2021 in the following analysis.

E.10 In charts E.1 and E.2, the black line shows the median funding level and contribution rate. Each shade of purple represents the range of funding level or contribution 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%)

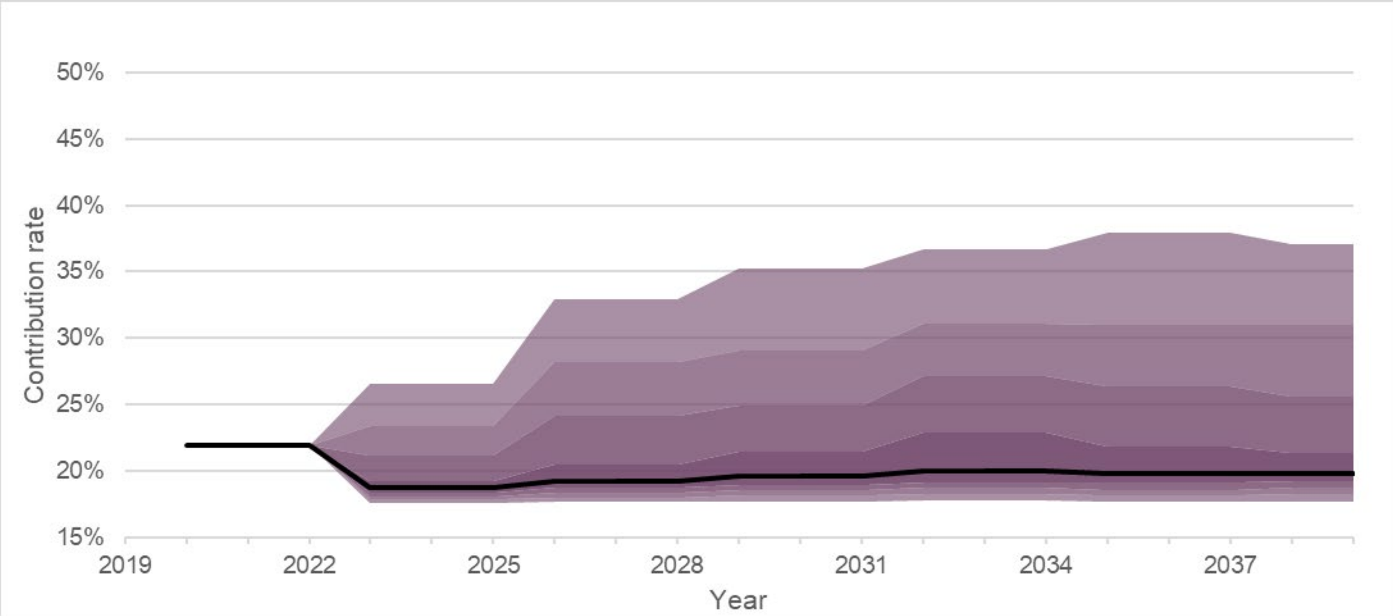
Chart E1: Illustration of funding levels with unconstrained contributions including allowance for expected 2020/21 recovery in assets



E.11 Chart E1 illustrates the initial drop in assets for the 2019/20 scheme year, due to COVID-19. For illustration purposes, we have shown the effect of an immediate recovery in the following year, by setting the scheme to be fully funded as at 31 March 2021 (a better position relative to that at the 2019 valuation).

E.12 The chart shows significant risk still remains as there is around 20% likelihood of the funding being 80% or lower by 2037. The upside is also illustrated in chart E.1, as the likelihood of improved funding is greater than that of chart 6.1, as there is over 30% chance that funding exceeds 140% funding.

Chart E2: Illustration of unconstrained employer contributions including allowance for expected 2020/21 recovery in assets



E.13 Based on the assumption that there is a rebound in asset values in 2020/21, chart E.2 illustrates that the median level of contributions may reduce at the 2022 valuation, due to the improvement in funding relative to the 2019 valuation.

E.14 Chart E.2 also illustrates that the risk to future contributions remain. After the assumed recovery there is around a 20% likelihood that contribution rates could exceed 30% by 2031. However, there is a limited likelihood of a significant reduction in contributions due to the assumption that no reduction is applied to primary contribution rates when the LGPS is in surplus.

Methodology

E.15 Our model projects the entire Scheme and assumes that the asset strategy and future valuation assumptions are an average of those used for the individual funds as at 31 March 2019. In practice, schemes are likely to have specific asset strategies and valuation assumptions, for example the discount rate will have regard to the expected return for each fund.

E.16 Projection of the contribution rates are determined based on the liability and asset values at each future triennial valuation and these are assumed to remain consistent for the following three years.

E.17 To project the development of the scheme we must make assumptions about the following:

> Expected new entrants into the scheme

> The way in which liabilities will evolve – for example, the rate at which current active liabilities “migrate” to being non-active (i.e. deferred/pensioner liabilities) over time or the extent to which liabilities are increased by CPI inflation and wage inflation at each point in time

> The way in which liabilities are assessed, and

> The way in which contributions are determined – both in respect of ongoing accrual and in respect of any surplus or deficit that arises.

The box below provides further details on the assumptions made in respect of these areas.

Key assumptions made in the ALM

For the purpose of assessing liabilities and determining contribution rates, assumptions are needed to carry out an actuarial valuation at each future point in time. In our modelling we have assumed that:

> The discount rate is set based on a constant margin above expected CPI. As such, the extent of the margin above real gilt yields included in the valuation may vary within the projections according to the projected economic conditions.

> The length of the recovery period is reset at each valuation i.e. deficit is spread over a 20 year period. However, when a surplus arises no reduction is applied to the primary rate (the cost of the benefits being accrued)

> New entrants' assumption – the scheme's active membership is assumed to remain stable over time

> The Scheme investment strategy is assumed to remain stable i.e. we assume the assets are rebalanced each year to the same allocation as that in the 2019 valuation.

> Demographic experience is as assumed in the underlying 2019 valuations

E.18 It should be noted that any change 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

> choosing a more return seeking investment strategy would be expected to increase volatility and risk

Assumptions

E.19 An ALM produces a broader amount of information than a traditional deterministic actuarial valuation. Consequently, we need to make more detailed assumptions to simplify the calculations involved in the projections and make it practical to analyse all the key outcomes we are interested in.

E.20 To project the development of the scheme we must make assumptions about the key economic variable and financial assumptions for example price inflation, salary growth and returns on assets held. These are determined from the economic scenario generator (ESG).

E.21 The ESG is calibrated to current conditions and expectations for the future and specifies how key economic variables may vary (stochastically, according to probability distributions) in future. The ESG was provided by Moody's, with a calibration date of 31 March 2020, and reflected the market expectations at that time.

E.22 GAD made subsequent amendments to the ESG:

> As the calibration was as at 31 March 2020, asset returns for the 2019/20 scheme year were introduced to allow for the known financial outcomes and ensuring that the asset value as at 31 March 2020 are consistent with publicly available SF3 data

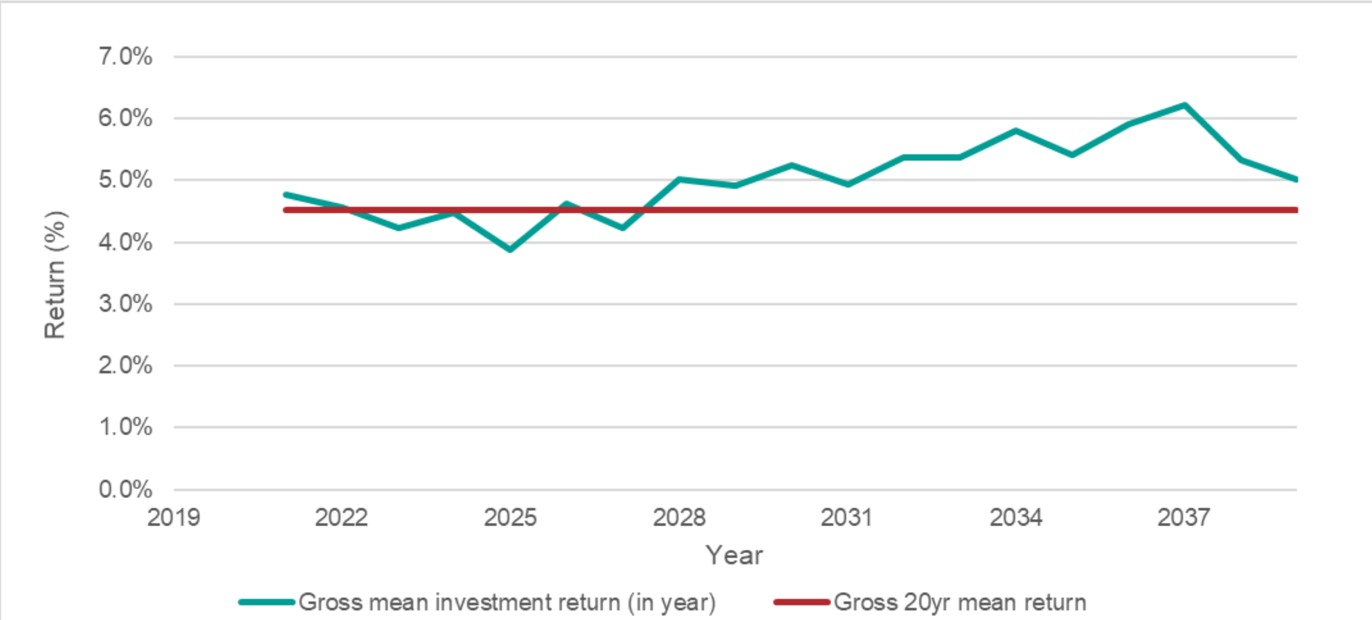
> CPI simulations are derived based on projected RPI simulations less a constant margin. The margin, set at 1.15%, is based on GAD's house view for the current difference between RPI and CPI and is constant throughout the projection period. In practice the difference between RPI and CPI is expected to reduce from 2030 when RPI reforms, however allowing for this would result in a disjoint in CPI projections because market expectations for RPI (which drive simulations) do not show such a disjoint.

> Assumed asset returns were enhanced to align with GAD's long-term views

E.23 Charts E.3 and E.4 illustrate the investment returns used in the ALM projections. The green line in Chart E.3 represents the mean return in each simulation year, and the expectation is that returns improve on average with time.

E.24 The red line in chart E.3. illustrates the annualised mean return over the projection period of the ALM projection, which is 4.5%. The expected return in the ALM is in line with GAD's expectation based on the economic environment as at 31 March 2020.

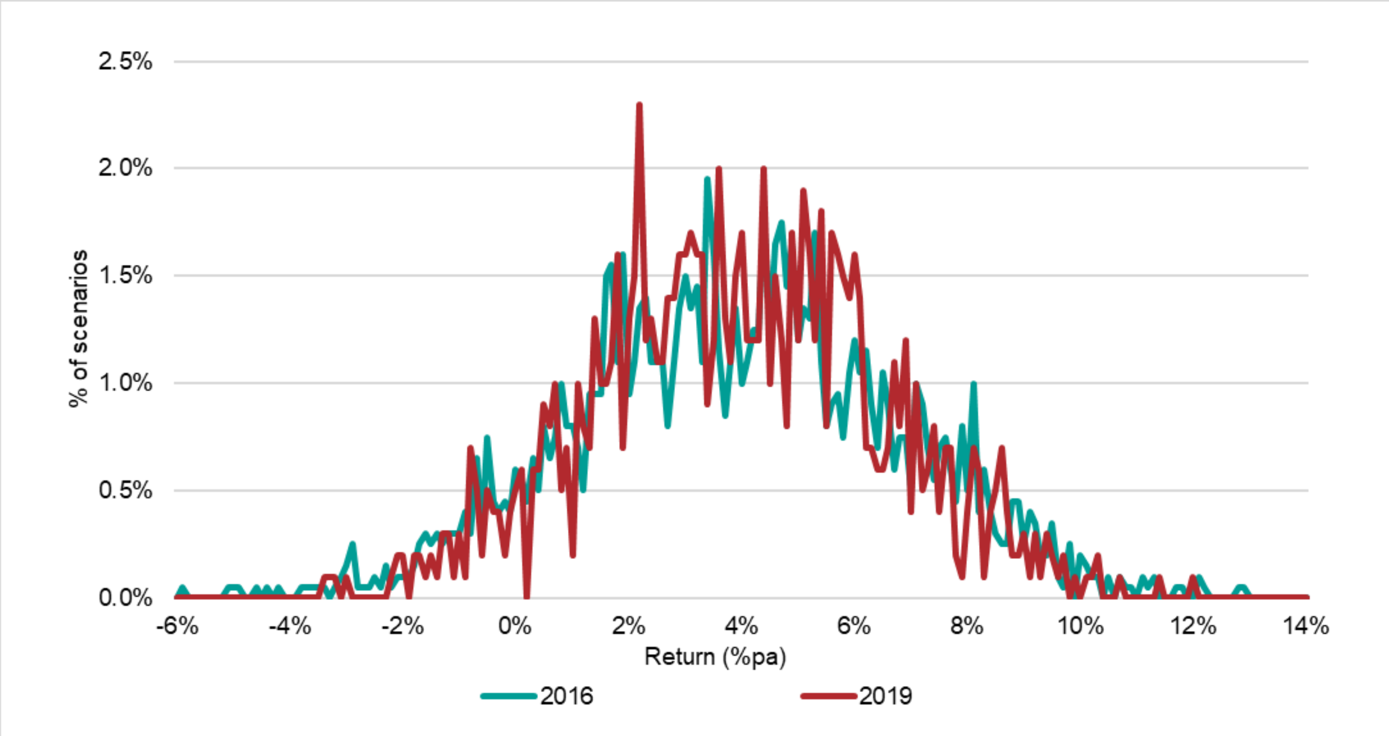
Chart E3: Mean investment return for future years



E.25 Chart E.4 is the distribution of the annualised portfolio returns over the twenty-year period and compares the projection to that of the 2016 ALM exercise. The distributions of the returns are similar, which is expected due to the same investment strategy being adopted at the 2016 and 2019 valuation and similar return prospects.

E.26 Chart E.4 demonstrates the volatility in the LGPS, which was also one of the key risks identified in the investment returns section within the main report. The chart below illustrates that whilst returns are mainly clustered between -2% and 10%, with the mean round 4%, significant risks of low returns over the 20-year period remain but so does the upside potential.

Chart E4: Distribution of annualised nominal investment returns



Appendix F: Data Provided

F.1 At the request of DLUHC, GAD collected data from each fund's 2019 valuation report via the fund actuaries. These actuarial funding valuations were conducted by four firms of actuarial advisors:

- Aon
- Barnett Waddingham
- Hymans Robertson
- Mercer

F.2 Data was received from the relevant firm of actuarial advisors for all 88 pension funds and included additional information provided to the fund actuaries by administrators in respect of their fund's employers.

F.3 Limited checks, consisting of spot checks to make sure that data entries appear sensible, have been performed by GAD and the data received appears to be of sufficient quality for the purpose of analysing the 2019 valuation results. These checks do not represent a full, independent audit of the data supplied. The analysis contained in this report relies on the general completeness and accuracy of the information supplied by the administering authority or their firms of actuarial advisors.

F.4 In addition, data has been collated from the 'Local government pension scheme funds local authority data', which is published annually by DLUHC at Local government pension scheme funds for England and Wales: 2016 to 2017 - GOV.UK (www.gov.uk). This published data may be referred to elsewhere as SF3 statistics.

F.5 Unless otherwise stated the data detailed above has been used to inform the analysis contained in the LGPS England and Wales section 13 2019 Report.

F.6 The information provided to GAD is, in many instances, more detailed than that provided in the actuarial valuation reports.

F.7 There was some inconsistency in the information provided to GAD. For example, membership details were not always split by gender as requested. However, this did not have a material impact on the analysis that GAD was able to complete (we assumed the average male female breakdown for these funds.

Data specification

(1) MEMBERSHIP DATA

Data split by gender.

(a) Active members: number of members, unweighted average age (to 2dp), total rate of annual actual pensionable pay at 31 March 2019 and 31 March 2016 (2014 pay definition)

(b) Deferred members: number of members, unweighted average age (to 2dp), total annual preserved pension revalued to 31 March 2019 for both 31 March 2016 and 31 March 2016. Note this should exclude undecided members.

(c) Pensioners (former members): number of members, unweighted average age (to 2dp), total annual pensions in payment at 31 March 2019 and 31 March 2016.

(d) Pensioners (dependants including partners and children): number of members, average age (weighted as appropriate), total annual pensions in payment at 31 March 2019 and 31 March 2016.

(2) FINANCIAL ASSUMPTIONS

Assumptions used to value the liabilities of the most secure employers (e.g. local authorities)

(a) Specify what proportion of the liabilities is calculated using the assumptions below

(b) Provide assumptions used for past service liabilities, these have been given for both as at 31 March 2019 and 31 March 2016.

i. Nominal discount rate (pre & post retirement separately if applicable)

ii. RPI inflation

iii. CPI inflation rate

iv. Earnings inflation

(c) Provide assumptions used for future contributions, these have been given for both as at 31 March 2019 and 31 March 2016.

i. Nominal discount rate (pre & post retirement separately if applicable)

ii. RPI inflation

iii. CPI inflation rate

iv. Earnings inflation

(d) Short term assumptions used in the valuation (if applicable)

i. CPI

ii. Salary Increases

iii. Discount Rate

(e) Deficit Recovery Period (years)

(3) DEMOGRAPHIC ASSUMPTIONS

Rates to be provided at sample ages split by gender

Each could be split further in Group 1, Group 2, Group 3, Group 4, and Group 5

(a) Assumed life expectancy for members retiring in normal health

i. Pensioner members aged 65 (for members retiring on normal health) (to 2dp) (with mortality improvements)

ii. Pensioner members aged 65 (for members retiring on normal health) (to 2dp) (without mortality improvements)

iii. Active / deferred members at age 65 if they are currently aged 45 (to 2dp) (with mortality improvements)

iv. Active / deferred members at age 65 if they are currently aged 45 (to 2dp) (without mortality improvements)

(b) Commutation

i. Pre 2008 pension Commutation Assumptions (as % of maximum lump sum allowed under HMRC rules). For example, maximum proportion of pension that may be commuted under the 2008 scheme is 35.71%. This will give a lump sum equal to the permitted maximum and thus if the member is assumed to commute this amount of pension, the entry in the table above is 100%. For pre2008 service, members already receive a lump sum = 3/80ths x pre 2008 pensionable service x final pensionable salary. Please specify the pre 2008 assumption as the proportion of the permitted maximum that is expected to be commuted over and above the 3/80ths lump sum.

ii. Post 2008 pension Commutation Assumptions (as % of maximum lump sum allowed under HMRC rules).

(4) ASSETS These are split to provide information for 31 March 2019 and 31 March 2016

(a) Market value of assets

(b) Value of assets used in the valuation

(c) Do you use a smoothed asset value in the valuation? If yes please attach an explanation

(d) Actual Asset Distribution split into the following:

i. Proportion of assets held in Bonds

a) Proportion of bonds which are fixed interest government bonds

b) Proportion of bonds which are fixed interest non-government bonds

c) Proportion of bonds which are inflation linked bonds

ii. Proportion of assets held in Equities

a) Proportion of equities which are UK equities

b) Proportion of equities which are overseas equities

c) Proportion of equities which are unquoted or private equities

iii. Proportion of assets held in Property

iv. Proportion of assets held in Insurance Policies

v. Proportion of assets held in Fully insured annuities

vi. Proportion of assets held in Deferred or immediate fully insured annuities

vii. Proportion of assets held in Hedge funds

viii. Proportion of assets held in Cash and net current assets

ix. Proportion of assets held in Commodities,

x. Proportion of assets held in ABC arrangements

xi. Proportion of assets held in Infrastructure – debt type

xii. Proportion of assets held in Infrastructure* – equity type

xiii. Proportion of assets held in "Other" investments – defensive*

xiv. Proportion of assets held in "Other" investments – return seeking

(e) Weighted best estimate return

(5) LIABILITIES AND FUTURE CONTRIBUTION RATE

These are split to provide information for 31 March 2019 and 31 March 2016

Local assumptions

(a) Past service liability – split between Actives, Deferred, Pensioners and Total

(b) Funding level

(c) Surplus / deficit

(d) Deficit recovery period

(e) Assumed member contribution yield k) Expenses, split by administration and investment (if not included implicitly in discount rate) l) Pensionable Pay definition (2008 or 2014 scheme definition) m)Is a smoothed liability value used? If Yes, an explanation is included ii) SAB standardised basis (only relevant for England and Wales) a) Past service liability – split between Actives, Deferred, Pensioners and Total b) Funding level c) Surplus / deficit d) Deficit recovery period Future contribution rates h) Standard contribution rate i) Contribution rate in respect of surplus or deficit j) Assumed member contribution yield

SAB standardised basis

(a) Past service liability – split between Actives, Deferred, Pensioners and Total

(b) Funding level

(c) Surplus / deficit

(d) SAB future service costs (excluding expenses) %

(6) Deficit recovery plan reconciliation

(a) Deficit contribution expected to be paid over each 3 yearly period from 2016 to 2043 as at March 2019 and March 2016

(b) Present value of deficit contribution expected to be paid over each 3 yearly period from 2016 to 2043 as at March 2019 and March 2016

(7) Post 2014 scheme

(a) Assumption for members in 50/50 scheme (if a proportion of members include details in 7b below)

(b) Proportion of members assumed to be in 50/50 scheme

(8) Documentation required

(a) Valuation Report @ 31 March 2019

(b) Relevant related reports

(c) Compliance Extract

(d) Statement of Investment Strategy

(e) Funding Strategy Statement

(f) Other

(9) McCloud approach

Please note the planned approach to risks arising from the McCloud judgement as discussed in the FSS

ALTERNATIVE FINANCIAL ASSUMPTIONS

Specify where a significant proportion of employer liabilities have been valued using alternative assumptions – provided as above in section 2

Appendix G: Assumptions

G.1 Each section of analysis contained in the main report is based on one of three sets of assumptions:

- The local fund assumptions, as used in the fund's 2019 actuarial valuation
- The SAB standardised set of assumptions, or SAB standard basis
- A best estimate set of assumptions

G.2 Details of local fund assumptions can be found in each fund's actuarial valuation report as at 31 March 2019. Details of the SAB standard basis and the standardised best estimate basis can be found in the table below.

Table G1: SAB standard basis and best estimate basis

Assumption	SAB standard basis	Best Estimate basis
Methodology	Projected Unit Methodology with 1 year control period	Projected Unit Methodology with 1 year control period
Rate of pension increases	2% per annum	2% per annum
Public sector earnings growth	3.5% per annum	3.5% per annum
Discount rate	4.45% per annum	4.3% per annum
Changes to State Pension Age (SPA)	As legislated	As legislated
Pensioner Baseline mortality	Set locally based on Fund experience	As set out in GAD's 2016 valuation
Mortality improvements	Core CMI_2018 with long term reduction in mortality rates of 1.5% per annum	Improvements in line with those underlying the ONS 2018-based principal population projections for the UK
Age retirement	Set locally based on Fund experience	As set out in GAD's 2016 valuation
Ill health retirement rates	Set locally based on Fund experience	As set out in GAD's 2016 valuation
Withdrawal rates	Set locally based on Fund experience	As set out in GAD's 2016 valuation
Death before retirement rates	Set locally based on Fund experience	As set out in GAD's 2016 valuation
Promotional salary scales	None	As set out in GAD's 2016 valuation
Commutation	We have used the SAB future service cost assumption of 65% of the maximum allowable amount	As set out in GAD's 2016 valuation
Family statistics	Set locally based on Fund experience	Set locally based on Fund experience

G.3 The financial assumptions for the best estimate basis are based on GAD's neutral assumptions for long term inflation measures and asset returns, and the split of LGPS assets held as at 31 March 2019. These neutral assumptions are not deliberately optimistic nor pessimistic and do not incorporate adjustments to reflect any desired outcome. We believe there is around a 50% chance of outcomes being better and a 50% chance of outcomes being worse than these assumptions imply.

G.4 Future asset returns are uncertain and there is a wide range of reasonable views on what future asset returns will be and therefore the best estimate discount rate should be. We have presented GAD's house view above, but there are other reasonable best estimate bases which may give materially different results.

Appendix H: Section 13 of the Public Service Pensions Act 2013

13 Employer contributions in funded schemes

(1) This section, which can be found at Public Service Pensions Act 2013 (legislation.gov.uk),applies in relation to a scheme under section 1 which is a defined benefits scheme with a pension fund.

(2) 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.

(3) For that purpose, scheme regulations must require actuarial valuations of the pension fund.

(4) Where an actuarial valuation under subsection (3) 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) A report under subsection (4) must be published and a copy must be sent to the scheme manager and (if different) the responsible authority.

(6) 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.

(7) The person appointed under subsection (4) must, in the view of the responsible authority, be appropriately qualified.

Appendix I: Extracts from other relevant regulations

Regulations 58 and 62 of 'The Local Government Pension Scheme Regulations 201320'

Funding strategy statement (Regulation 58)

(1) An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.

(2) The statement must be published no later than 31st March 2015.

(3) The authority must keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy set out in the statement, and if revisions are made, publish the statement as revised.

(4) In preparing, maintaining and reviewing the statement, the administering authority must have regard to

(a) the guidance set out in the document published in October 2012 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called "Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme 2012" and

(b) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Actuarial valuations of pension funds (Regulation 62)

(1) An administering authority must obtain

(a) an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards

(b) a report by an actuary in respect of the valuation, and

(c) a rates and adjustments certificate prepared by an actuary.

(2) Each of those documents must be obtained before the first anniversary of the date ("the valuation date") as at which the valuation is made or such later date as the Secretary of State may agree.

(3) A report under paragraph (1)(b) must contain a statement of the demographic assumptions used in making the valuation and the statement must show how the assumptions relate to the events which have actually occurred in relation to members of the Scheme since the last valuation.

(4) A rates and adjustments certificate is a certificate specifying

(a) the primary rate of the employer's contribution and

(b) the secondary rate of the employer's contribution, for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.

(5) The primary rate of an employer's contribution is the amount in respect of the cost of future accruals which, in the actuary's opinion, should be paid to a fund by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who are active members.

(6) The actuary must have regard to-

(a) the existing and prospective liabilities arising from circumstances common to all those bodies

(b) the desirability of maintaining as nearly constant a common rate as possible

(c) the current version of the administering authority's funding strategy mentioned in regulation 58 (funding strategy statements) and

(d) the requirement to secure the solvency of the pension fund and the long term cost efficiency of the Scheme, so far as relating to the pension fund.

(7) The secondary rate of an employer's contributions is any percentage or amount by which, in the actuary's opinion, contributions at the primary rate should, in the case of a Scheme employer, be increased or reduced by reason of any circumstances peculiar to that employer.

(8) A rates and adjustments certificate must contain a statement of the assumptions on which the certificate is given as respects

(a) the number of members who will become entitled to payment of pensions under the provisions of the Scheme and

(b) the amount of the liabilities arising in respect of such members

during the period covered by the certificate.

(9) The administering authority must provide the actuary preparing a valuation or a rates and adjustments certificate with the consolidated revenue account of the fund and such other information as the actuary requests.

Section 13

London Borough of Havering Pension Fund

Hymans Robertson LLP is authorised and
regulated by the Financial Conduct Authority

Section 13

Aims of Section 13

Compliance	• Have valuations been completed in accordance with the Regulations?
Consistency	• Has the Fund's valuation been carried out in a way which is "not inconsistent" with other funds?
Solvency	• Will certified contributions accumulate enough assets to meet liabilities over an "appropriate" period? • Would the Council's core spending be detrimentally impacted if the Fund's growth assets fell significantly?
Long term cost efficiency	• Are certified rates "enough"? • Are employers kicking the contribution can down the road?

LGPS-wide outcomes

Compliance	• Only considers Regulation 62	✓
Consistency	• GAD would like to see a more consistent approach	-
Solvency	• Recognition that Funds have grown relative to the size of underlying employers but no new solvency flag raised	✓
Long term cost efficiency	• Identified 4 funds where GAD had concerns	✓

Havering - solvency

	Local Funding Basis	SAB Basis
LGPS	51% ↔ 125%	77% ↔ 148%
Havering	70%	87%

Havering - solvency

Open / Closed	• Open to new entrants	✓
SAB funding level	• 86%	–
% non-statutory employees	• 1.5%	✓
Asset shock	• 1.3%	✓
Employer default	• 0.0%	✓

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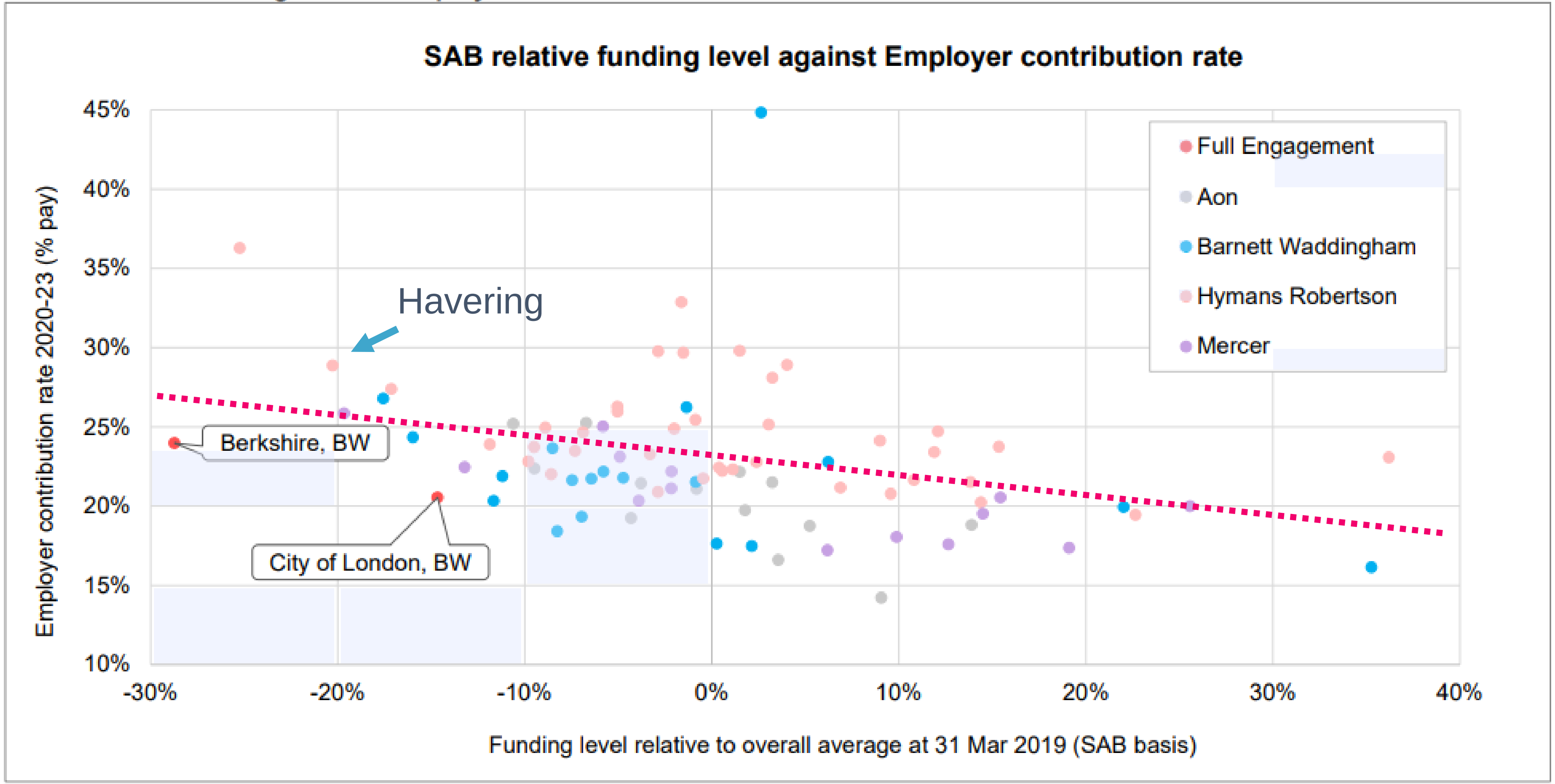
Havering - long term cost efficiency

Chart 7.1 SAB funding level vs Employer contribution rate



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Source: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1040197/S13_final_report.pdf

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Havering - long term cost efficiency

Maturity	• Ranked 27th (26 funds more mature on GAD measure)
Deficit period	• 12 (ranked 84th)
Required return	• 3.7% p.a. (ranked 69th)
Repayment shortfall	• 4.0%
Return scope	• 0.1% (ranked 83rd)
Deficit recovery plan	• No concern

No amber or red flags were raised for the Fund

What to watch out for

Recommendation 1

SAB should consider whether a consistent approach should be adopted for academy conversions and for assessing the impact of McCloud.

Recommendation 2

SAB should 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

Actuaries should provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the 'dashboard'.

Recommendation 4

SAB should 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.

Emerging issue

LGPS should work towards consistent approach to TCFD.

HYMANS ROBERTSON

Thank you