



## PENSIONS COMMITTEE

20 SEPTEMBER 2016

**Subject Heading:**

**PUBLIC SERVICE PENSIONS ACT –  
SECTION 13 VALUATION**

**CMT Lead:**

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**Report Author and contact details:**

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**Policy context:**

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Section 13 of the Public Services  
Pensions Act 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**

Havering will be clean and its environment will be cared for  
People will be safe, in their homes and in the community  
Residents will be proud to live in Havering

**SUMMARY**

The Governments Actuary Department (GAD) was appointed by Department of Communities and Local Government (DCLG) to review the 2013 valuations, as a 'dry run' to assess whether the aims of section 13 were being met.

This report, as attached as Appendix A, includes the results of the 'dry run' exercise that was undertaken by GAD.

**RECOMMENDATIONS**

That the committee note the results of the 'dry run' reports produced by GAD as attached in Appendix A.

**REPORT DETAIL**

**Background**

1. GAD was appointed by DCLG to report under section 13 of the Public Service Pensions Act 2013 on whether the Local Government Pension Scheme (LGPS) meet the aims of Section 13.
2. Section 13 (4) requires GAD to report on whether four main aims are achieved:
  - a) **Compliance** – to confirm the fund's valuation has been carried out in accordance with the scheme regulations.
  - b) **Consistency** – to confirm the fund's valuation is not inconsistent with other valuations..
  - c) **Solvency** – to confirm employer contributions is set at an appropriate level to ensure the solvency of the pension fund, and
  - d) **Long Term cost efficiency** – to confirm employer contributions are sufficient to meet benefit accrual and existing deficit.
3. Section 13 will apply for the first time to the 2016 round of fund valuations and the report is expected to be published in the summer of 2018.
4. GAD was asked to carry out a 'dry run' section 13 report using the 2013 fund valuations. The purpose being to provide information about the tests and metrics used for assessment and an indication of how funds performed against the chosen metrics
5. The 'dry run' report has no statutory force but various areas have been identified where the aims of section 13 are potentially not being met and where GAD may have sought further information and engagement before recommending remedial steps if section 13 had applied at 31 March 2013.

6. The results of the 'dry run' report can be seen as attached in Appendix A, together with the dry run supporting appendices (Appendix B).
7. 'Dry Run' results summary for the LGPS:
  - a) As anticipated, no **compliance** issues were found.
  - b) GAD reported that they had found both presentational and evidential **inconsistencies** in the valuation approach adopted by LGPS funds, and in assumptions used and disclosure of results.
  - c) GAD reported concerns over securing **solvency** for two closed transport funds. A number of funds raised amber flags on one or more metrics examined under solvency. No funds were red flagged.
  - d) GAD named two funds with whom they would have wanted to have further discussion over the **long term cost efficiency** of their funding plans. For funds advised by Hymans, no red flags were raised on either solvency or long term cost efficiency reflecting the robust and transparent nature of the funding plans put in place by LGPS Administering Authorities.
  - e) GAD clarified that **meeting solvency and long term cost-efficiency requirements takes precedence** in the regulatory framework over the desirability of stable contributions.
8. **'Dry Run' results impact on the Havering Pension Fund**
  - a) A number of amber flags were raised under the criteria for **solvency**. Using the Scheme Advisory Board (SAB) standardised basis, ten funds with the lowest funding levels were highlighted, one of which was the Havering Pension Fund (Appendix A, section 5 refers).
  - b) The report states whilst poorly funded is not necessarily sufficient, by itself, to warrant a recommendation for remedial action had section 13 been in force, they may have engaged with these funds to better understand how they intend to improve their funding position.
  - c) The fund actuaries are in the process of preparing the 2016 valuations, when section 13 will be in force. Hymans will have consideration of the outcome of the dry run report as part of this process and officers and the Fund's Actuary will report back to the committee when the 2016 valuations results are finalised

## **IMPLICATIONS AND RISKS**

### **Financial implications and risks:**

Section 13 does not prescribe what remedial steps may be recommended but the report mentions that they could include,

- That the administering authority strengthens scheme governance, for example, making changes to the Pensions Committee or Local pension Board
- That a revised approach be taken at the next valuation
- That the current valuation is reopened and changes made to employer contributions in advance of the next valuation.

The financial implications of any remedial action is not clear at this stage but members need to be aware of the risks and the importance of adopting a funding plan for improving the funding level over time. Members and officers to work with the Funds Actuary in formulating the funding plan that demonstrates that the employer contribution rate has been set at an appropriate level to ensure solvency.

### **Legal implications and risks:**

Given this exercise is non-statutory there are no immediate legal implications in considering the outcome of the dry run exercise,, however, it may highlight matters which will be the subject of recommendations or directions under section 13 if any adverse commentary on the dry run is not rectified for this year's statutory process.

### **Human Resources implications and risks:**

None arise from this report.

### **Equalities implications and risks:**

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