



## PENSIONS COMMITTEE

11 DECEMBER 2018

**Subject Heading:**

**PUBLIC SERVICE PENSIONS ACT 2013  
– SECTION 13 REPORT**

**SLT Lead:**

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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**

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 Ministry of Housing, Communities and Local Government (MHCLG) to report under section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the 91 funds in the Local Government Pension Scheme in England and Wales ('LGPS' or 'the Scheme').

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

**RECOMMENDATIONS**

That the committee note

1. The results of the report produced by GAD as attached as Appendix A, B and C.
2. The Actuarial firms joint letter to Ministry of Housing, Communities and Local Government and Scheme Advisory Board as attached as Appendix D.

**REPORT DETAIL**

**Background**

1. GAD has been appointed by the Ministry of Housing, Communities and Local Government (MHCLG) to report under section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the 91 funds in the Local Government Pension Scheme in England and Wales ('LGPS' or 'the Scheme').
2. Published on the 27 September 2018, this is the first formal Section 13 report which is based on the results the 2016 Valuation. This report is published as three documents: the executive summary (Appendix A), the report (Appendix B) and appendices (Appendix C). The department is required to report on the Scheme every 3 years.
3. A prior 'Dry Run' was produced in respect of the 2013 valuations and published in 2016. The outcome of the 'Dry Run' report was reported to the pensions Committee on the 20 September 2018
4. Section 13 (4) requires GAD to report on whether four main aims had been achieved, using a variety of measures within the following categories:
  - a. **Compliance** – to confirm the actuarial valuations has been carried out in accordance with the scheme regulations.
  - b. **Consistency** – to confirm the actuarial valuation has been carried out in a way that 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 set at a level to ensure, over the long term, that they meet current benefit accruals and include an adjustment to the rate for any surplus or deficit.

5. GAD allocated scores to each fund under each of the measures listed above using a colour classification of red, amber or green:

- **Red** – potential material issue that may contribute to receiving a recommendation for remedial action.
- **Amber** – potential issue is recognised but in isolation would not contribute to a recommendation for remedial action
- **Green** – no material issues.

6. The results of the report can be seen as attached in Appendix B, together with the supporting appendices in Appendix C. An overall summary of the findings are shown below:

- a. 89 funds were tested out of the 91 LGPS funds (due to incomplete or missing data)
- b. 70 received green flags on all **solvency** and **long term cost efficiency** measures (Dry Run was 52 out of 90).
- c. 20 amber flags and 2 red flags allocated in total. (Dry run was 58 Amber and 5 red).
  - I. 14 amber flags in the solvency criteria
  - II. 2 red flags under the solvency criteria
  - III. 6 amber flags under the long term cost efficiency criteria

7. More detailed summary follows:

**a. Compliance** - No concerns over **compliance**.

**b. Inconsistencies** - 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. *GAD made a number of recommendations, as follows:*

- I. **Recommendation 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 MHCLG 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.*
- II. **Recommendation 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 MHCLG minister in advance of the next valuation.*

*III. **Recommendation 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 MHCLG minister in advance of the next valuation.*

**c. Solvency** - GAD reported that 74 out of 89 funds tested had green flags on all **solvency** measures (Dry run 56 out of 90). 14 funds received amber flags and 1 fund received 2 red flags as shown below:

- 10 funds with the lowest funding levels, using the Scheme Advisory Board (SAB) standardised funding level basis, received Amber flags, one of which was the Havering Pension Fund.
- 4 funds received amber flags following asset shock tests – this is where 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.
- 1 fund closed to new members received 2 red flags, 1 for the test on open fund measure basis (increased risk if fund is closed to new members due to a closer risk to maturity and less scope and time to address funding level and investment return concerns). 1 for non-statutory member test (50% of members within the fund are employed by employers who do not have tax raising powers – and therefore have weaker covenant values). *GAD made the following recommendation:*

*I. **Recommendation 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.*

**d. Long Term Cost Efficiency** - GAD reported that 83 out of the 89 tested had green flags on all long term cost efficiency measures. There were a total of 6 amber flags and no red flags (Dry Run 14 amber and 3 red). The 6 amber flags include:

- Concerns over extending deficit periods at the same time as reducing contributions resulted in 4 funds receiving amber flags on deficit reconciliation measure.

- 2 funds having long deficit recovery periods after adjusting on a standardised basis were awarded amber flags. *GAD made the following recommendation*

*1. **Recommendation 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.*

8. In response to the GAD report the main four actuarial firms considered the report and the recommendations and whilst they acknowledge that the GAD report is positive about the overall progress of the LGPS there were concerns that their feedback was not reflected in the report. Given the influence the report could have on funding behaviours within the LGPS, the four actuarial firms felt it necessary to draft a joint letter addressed to MHCLG and the Chair of the SAB setting out their concerns. This letter is attached as **Appendix D**.

9. **Impact of result on the Havering Pension Fund** – our actuaries have provided the following comments for the committee:

*“...Within the solvency measures, GAD has valued all LGPS fund’s on a common set of assumptions so a like-for-like comparison can be made (i.e. who holds the most assets for every £ of pension promised). They appear to have then assigned an amber flag to the 10 funds with the lowest funding level on this measure. As expected, Havering have been flagged as a result.*

*While this may not come as a surprise, it is worth noting the following:*

- *Since the 2013 Section 13 dry-run report produced by GAD, the Fund’s position in comparison to other LGPS funds has improved (from 2<sup>nd</sup> to 4<sup>th</sup> bottom), marking notable progress;*
- *Funding level is a simplistic one-dimensional measure and by itself it does not mean that the Fund is in any difficulty;*
- *Our actuary has carried out extensive testing of our funding plans and is comfortable our investment and contribution strategies are robust and fit for purpose; and*
- *This is the only flag raised, therefore, it can be inferred that GAD have agreed with our actuary that our investment and contribution plans are suitable.*

*As a reminder, the funds actuary works very closely with our investment consultant to develop investment and contribution plans that meet the Fund’s long term goal of being fully funded on a prudent basis. In particular, the plans have been set such that there is at least a 60% chance of being fully funded in 20 years’ time, striking a difficult balance between the level of*

*investment risk being taken and the affordability of contributions (i.e. the impact on Council services and Council Tax rates)”.*

## **IMPLICATIONS AND RISKS**

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

Having received an amber flag against the insolvency measure. 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. A fund in deficit will need to pay additional contributions in order to meet the liabilities that have already been accrued.

As mentioned in paragraph 9 above our actuary has carried out extensive testing of our funding plans and is comfortable our investment and contribution strategies are robust and fit for purpose – a view that has GAD implied approval.

An amber flag is a potential issue that has been recognised but in isolation would not contribute to a recommendation for remedial action.

There are no direct cost implications as a result of the amber flags and no immediate costs incurred as a result of the GAD recommendations.

GAD have no experience of carrying out valuations of LGPS funds and setting funding plans and therefore consulted with and relied on the four firms who provide actuarial advice to the LGPS to explain funding plans and fulfil their data requests. Since late 2017 our actuaries have been in discussions with GAD about the approach they have taken to the Section 13 valuation and the results and report they published. Our actuaries carried out this work for two reasons:

- To try and ensure that GAD’s valuation accurately reflects the funding plans for the funds we advise.
- To communicate and highlight the positive position the LGPS currently stands and avoid the report damaging the public perception of the LGPS at a national level.

As the engagement has been very time consuming our actuaries will charge for their input into the Section 13 process and this charge will be met from the Pension Fund.

**Legal implications and risks:**

The Ministry of Housing, Communities and Local Government has published the first statutory review of the Local Government Pension Scheme under section 13 of the Public Service Pensions Act 2013 covering the period to 2016.

If the report states that, in the view of the person making the report, any of the aims in that subsection 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;

The department appointed the Government Actuary (GAD) to conduct the review of 91 individual funds which make up the Local Government Pension Scheme. Each fund was assessed in terms of its compliance, consistency, solvency and long term cost efficiency.

There are no immediate 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 EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

**Pensions Committee, 11 December 2018**

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