



PENSIONS COMMITTEE

15 MARCH 2022

Subject Heading:

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

SLT Lead:

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Policy context:

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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. Section 13 Report summary findings

- 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 from 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 previous 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.

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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