



## PENSIONS COMMITTEE

12 DECEMBER 2023

**Subject Heading:**

**PENSION FUND VALUATION FUNDING  
UPDATE FROM 31 MARCH 2022 TO 30  
SEPTEMBER 2023**

**CLT Lead:**

**Kathy Freeman**

**Report Author and contact details:**

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**Policy context:**

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Pension Fund Interim Valuation in line  
with Funding Strategy Statement

**Financial summary:**

None directly as the report comments on  
the Pension Fund interim valuations since  
the last formal valuation in 31 March  
2022.

**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 Members with a report from the Fund's Actuary, Hymans Robertson, to illustrate the estimated Pension Fund's funding position as at 30 September 2023 and show how it has changed since the valuation as at 31 March 2022.

The estimated funding level has increased from 80% at last valuation date 31 March 2022 to 106% at 30 September 2023.

**RECOMMENDATIONS**

That the Committee note the following:

1. The Havering Pension Fund interim funding position updated to 30 September 2023, as set out in Appendix A.
2. No action is required to change the funding plan.

**REPORT DETAIL**

1. **Background**

- 1.1 In line with Local Government Pension Scheme 2013, the Fund's actuary carried out a triennial valuation as at 31 March 2022. The main purpose of the valuation is to estimate on-going employer liabilities, evaluate this against the Funds' assets and calculate the funding position. This is then used to set future employer contribution rates.
- 1.2 In line with the Funding Strategy Statement (FSS) the Administering Authority states that it will monitor the relative funding position, i.e. changes in the relationship between asset values and the liabilities and to report this to the Pensions Committee meetings. Hymans was asked to provide Members with a report to illustrate the development of the Pension Fund's funding position since 31 March 2022 to 30 September 2023, which is the mid-way point between the valuations. This report is attached as **Appendix A**.
- 1.3 In preparing the updated funding position as at 30 September 2023 no allowances have been made for the effect of changes in the membership profile since 31 March 2022, any early retirements or bulk transfers and any changes to the Local Government Pension Scheme benefits except where noted in the formal valuation report or Funding Strategy statement.
- 1.4 The results in Hymans report are based on projecting the results of the 2022 valuation and projecting this valuation forward to 30 September 2023 using approximate methods. The roll forward allows for:

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- Estimated cash flows over the period,
  - investment returns over the period
  - changes in financial assumptions
  - estimated additional benefit accrual
- 1.5 Employer contributions will not be reviewed until the next valuation as at 31 March 2025. The purpose of the funding update was to assess whether the funding plan is on track and take actions where necessary. No actions are required to change the current funding plan.
- 1.6 The updated funding position provides an illustrative funding position and not designed to meet regulatory requirements for valuations

## **2. Key items from the report**

- 2.1 The funding level at the last formal valuation was 80.0%. As at 30 September 2023 the funding level has increased to 106%. See following table:

<b>Ongoing funding basis</b>	<b>30 Sep 2023</b>	<b>31 Mar 2022</b>	<b>31 Mar 2019</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Assets	891	920	733
Liabilities	842	1,149	1,054
<b>Surplus/(deficit)</b>	<b>49</b>	<b>(229)</b>	<b>(321)</b>
Funding level	106%	80%	70%

- 2.2 Increased funding level has been driven by a fall in the liabilities. The fall in liabilities is a consequence of higher than expected real discount rate used to value the current cost of future pension obligations (accrued liabilities).
- 2.3 If the real discount rate used to value the accrued liabilities was lower, then the value placed on those liabilities would increase. For example, if the real discount rate at 30 September 2023 was 1.0% pa lower, then the liabilities on the Ongoing basis at that date would increase by 18.3%.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

Volatility in the investment performance can have an immediate effect on the funding level and is a key risk of ensuring solvency of the fund going forward. The Pension Fund is seeking to achieve an improvement in the funding ratio over the longer term, typically twenty years as reflected in the actuarial valuation report. Short term volatility in investment performance may shift the Committee's attention from time to time but it will be important to remain focussed on the longer term objectives and strategy.

Members should note the reliance's and limitations set out in the funding update especially the sensitivities to changes in: longevity, data since the valuation, regulatory changes and real discount rate used to value accrued liabilities, for example, if the real discount rate at 30 September 2023 was 1.0% pa lower, then the liabilities on the Ongoing basis at that date would increase by 18.3%.

The Administering Authority has an active risk management programme in place and inter - valuation updates are carried out as a control mechanism to identify and provide early warnings if Fund assets are failing to deliver returns in line with those anticipated or there is a fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities, and pay and price inflation significantly more than anticipated.

The Fund's Funding plan is on track and therefore no action is required to change the funding plan.

The results in Hymans report are based on calculations run on 16 October 2023. Any other factors coming to light after this report was prepared have not been allowed for and could affect the results. If any data has materially changed since 16 October 2023 the results could be materially different if they were recalculated.

The next formal valuation date is 31 March 2025.

**Legal implications and risks:**

None arise from this report.

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

**BACKGROUND PAPERS**

Background Papers List

None