

# London Borough of Havering Pension Fund

## 2022 Valuation Section 13 Results

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**For an on behalf of Hymans Robertson LLP**

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# Section 13 – What is it?

## What is Section 13?

Under Section 13 of the Public Service Pensions Act the Ministry of Housing, Communities and Local Government (“MHCLG”) appointed the Government Actuary’s Department (GAD) to carry out a review of the LGPS local funding valuations. We previously submitted data and information regarding the 2022 valuation on the Fund’s behalf to GAD and they used this data, along with data from the other LGPS Funds to carry out their analysis.

GAD published their report on the **2022 valuations** on **14 August 2024**.

The full report can be found at:

<https://www.gov.uk/government/publications/lgps-ew-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2022>

## What does the Section 13 report cover?

This GAD analysis is very analytical and presents various metrics in a “like-for-like” fashion so that reasonable comparisons can be made between LGPS funds. Section 13 requires GAD to ascertain whether each local fund valuation has achieved the following aims:

- The valuation **complies** with the LGPS regulations.

In assessing compliance, GAD has focussed on Regulation 62 covering mainly the valuation report and employer contribution rate setting and has not considered other elements of the valuation process, including the compliance of the Funding Strategy Statement.

- The valuation has been carried out in a way which is **not inconsistent** with other local fund valuations.
- The valuation has set employer rates that ensure the **solvency** and the **long-term cost efficiency** of the fund.

For solvency GAD focuses on whether the assets held, together with employers’ contributions are sufficient to target 100% funding over an appropriate period.

For long-term cost efficiency GAD also considers issues of inter-generational fairness in employer contribution rates, ensuring that employers pay a fair amount to cover benefits earned during the current period of participation.



# Section 13 – General Results

# What did GAD report for all LGPS Funds to consider?

## Compliance

The valuations were considered compliant with the relevant Regulations.

## Consistency

GAD recognised the improved presentational consistency in the 2022 valuations, and that the continued **use of the section 13 dashboard** (first introduced for the 2019 valuations) **greatly aids stakeholders' understanding**.

GAD noted **concern around the continued lack of evidential consistency** since the previous review at 2019. Whilst GAD appreciate that specific fund circumstances may merit the use of different actuarial assumptions, they believe that these differences may lead to different outcomes, for example different contribution rates. Wherever possible, GAD believe in the importance of information being presented in a way that facilitates comparisons.

GAD made 2 formal recommendations in this area for the Scheme Advisory Board to consider:

- **Whether greater consistency could and should be achieved to allow easier comparison between funds and better understanding of risks**, and
- **whether guidance would be helpful to support greater consistency on emerging issues**

## Climate risk

GAD recognised the **significant progress made by funds and actuarial advisers in the presentation of climate risk analysis** as part of the 2022 fund valuations. They recommended that work continues to refine their Climate Change Principles Document in advance of the 2025 fund valuations.

### Hymans Robertson comments

On **consistency** recommendations:

"We have commented to GAD that it would be helpful to understand which elements of a valuation they believe there could be greater consistency. There are legitimate reasons why LGPS funds may have differing views and circumstances regarding elements such as methodology, prudence, assumptions and a one size fits all consistent approach would not be appropriate.





We are supportive of anything that helps awareness around emerging risks and offers ideas about how these risks can be assessed, understood and reported on. However, given such risks are emerging and typically uncertain, we believe that it is beneficial for the LGPS if funds are free to proportionately explore a variety of managing, measuring and mitigation options to avoid 'group think' and systemic risk.



# What did GAD report for all LGPS Funds to consider?

## Flags

To assess solvency and long-term cost efficiency GAD designed a number of metrics and raised flags against these metrics against specific funds to highlight areas where risk may be present, or further investigation is required, using a red/amber/green/white rating approach.

-  Red = Material issue
-  Amber = Potential material issue
-  White = Advisory highlighting a general issue
-  Green = No material issues

The London Borough of Havering Pension Fund received all **green** flags for both Solvency and Long-Term Cost Efficiency.

## Solvency

On solvency GAD reported:

- In aggregate, the funding position of the LGPS has improved since 31 March 2019; and the scheme appears to be in a strong financial position.
- Total **assets** have **grown** in market value from **£291bn to £379bn**
- Total **liabilities** disclosed in the 2022 local valuation reports amounted to **£355bn**.
- The aggregate funding level of the LGPS on prudent local bases has improved from **98%** (in 2019) to **106%** (at 2022) due in large part to strong asset returns over the 3-year period to 31 March 2022.
- The size of funds has grown significantly over the three years to 31 March 2022 relative to the size of the underlying authorities. This means that funds in deficit were more likely to trigger GAD's asset shock measure, where there is a risk of a large changes in contribution rates following a sustained reduction in the value of return-seeking assets. GAD raised white flags against impacted funds.

Given the strong position, **no red or amber flags** were raised in the LGPS for solvency concerns.



# What did GAD report for all LGPS Funds to consider?

## Long-term Cost Efficiency

In assessing long-term cost efficiency, GAD focussed mainly on Funds' contribution levels, deficit recovery plans and on ensuring that Funds maintained a deficit recovery plan from one valuation to the next.

GAD raised amber flags against 3 funds:

- For 2 funds, GAD were concerned about their deficit recovery periods. GAD estimated that current contribution rates will not be sufficient to reach full funding on a best estimate basis within the deficit recovery period used at the valuation.
- For a further fund, GAD were concerned that employer contribution rates were 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).

As in their 2019 valuation report, GAD recommended that (where deficits exist) funds should be able to demonstrate that deficit recovery plans are a continuation of the previous plan. Given the strong funding positions across the LGPS, GAD further **recommended that the Scheme Advisory Board consider the approach to surpluses** in their review of the Funding Strategy Statement (FSS) guidance.

## Hymans Robertson comments

On **long-term cost efficiency** recommendations:

We are supportive of the recommendation that additional guidance be provided to support funds in balancing considerations when in surplus positions, so long as it does not constrain individual funding strategy decisions.

We remain unconvinced that continuing the same plan (which GAD interpret to mean recovering a deficit by a fixed end point) is appropriate for LGPS employers that are expected to participate for the long term. It also ignores that there is no single 'deficit recovery' for the fund, it is in effect the sum/average of all the employers' own funding strategies



# Section 13 – London Borough of Havering Results

# Summary Metrics for London Borough of Havering Fund

## Funding Level

The funding level calculated using the SAB “best estimate” basis. This facilitates like for like comparison but is not suitable for funding purposes

## Required Return

The required investment return rate to achieve full funding in 20 years’ time on the standardised best estimate basis

## Return Scope

The required investment return rate as calculated in required return, compared with the fund’s expected best estimate future returns assuming current asset mix is maintained. The more positive the return scope is, the more prudent the funding plan is.

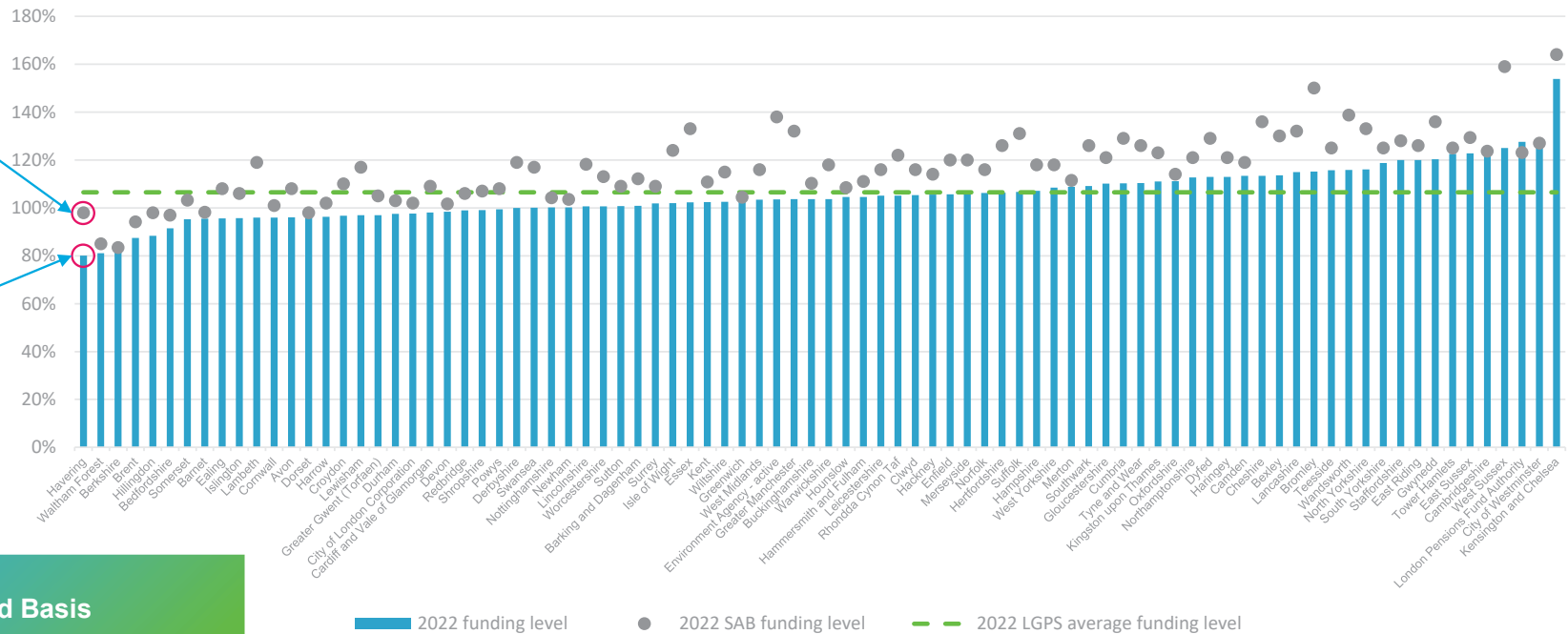
Metric	Havering	Rank out of 87 Funds
Funding Level	98%	81st
Required return	3.7%	65th
Return Scope	1.1%	66th

# Solvency

SAB standard basis – ranked **81 out of 86\* LGPS funds**

Local funding basis – ranked **86 out of 86\* LGPS funds**

2022 Funding Levels



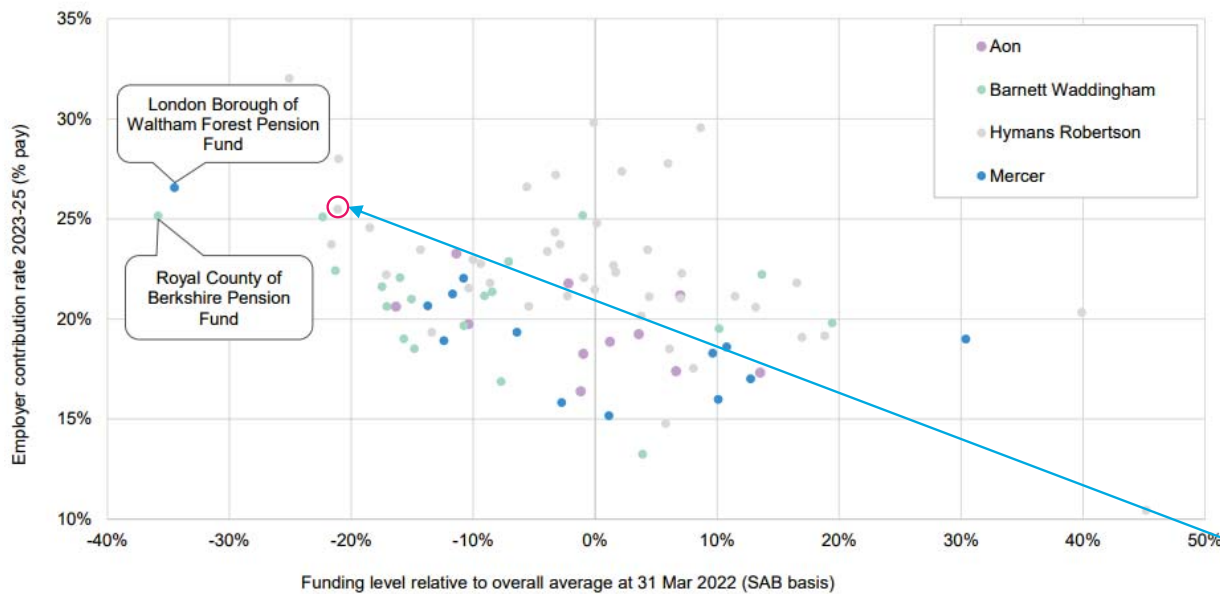
## Funding Level on SAB Standardised Basis

The funding level calculated using the SAB “best estimate” basis facilitates like for like comparison but is not suitable for funding purposes

London Borough of Havering have moved up 3 places versus 2019 on SAB’s Standardised Basis. As a result, **London Borough of Havering Pension Fund received no flags for solvency concerns.**

# Long-term cost efficiency

SAB relative funding level vs Employer contribution rate



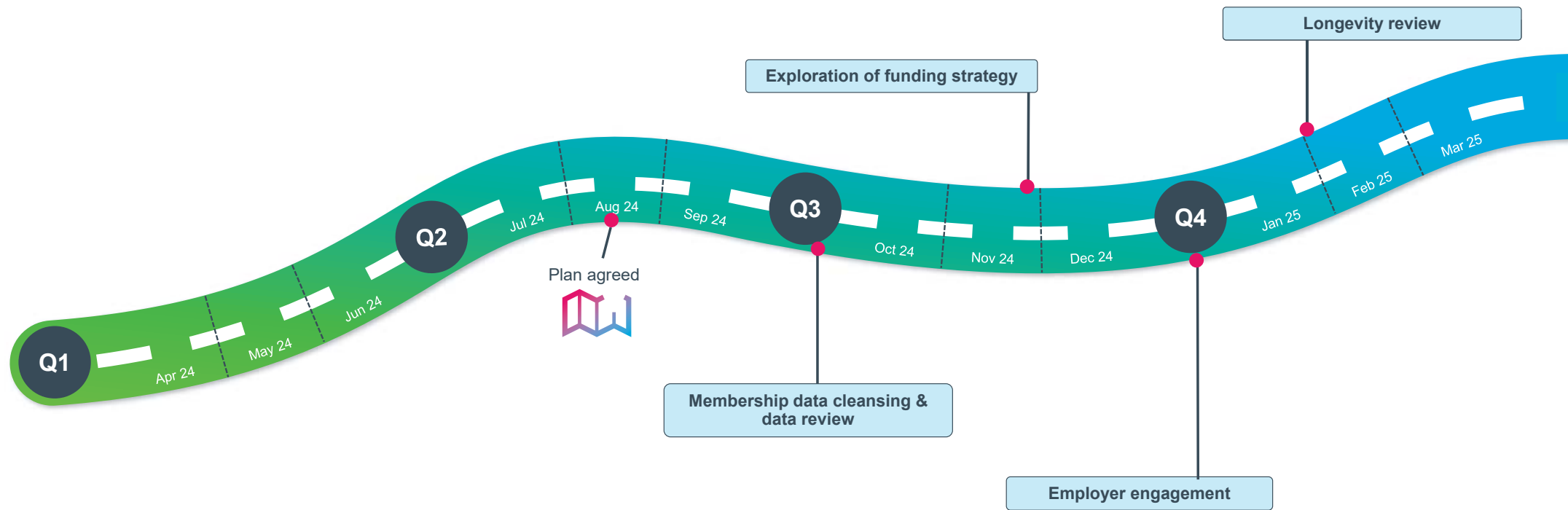
## Comparing Contributions and Funding Level

This chart shows the contributions paid by each Fund against their relative funding level. Each dot represents a fund.

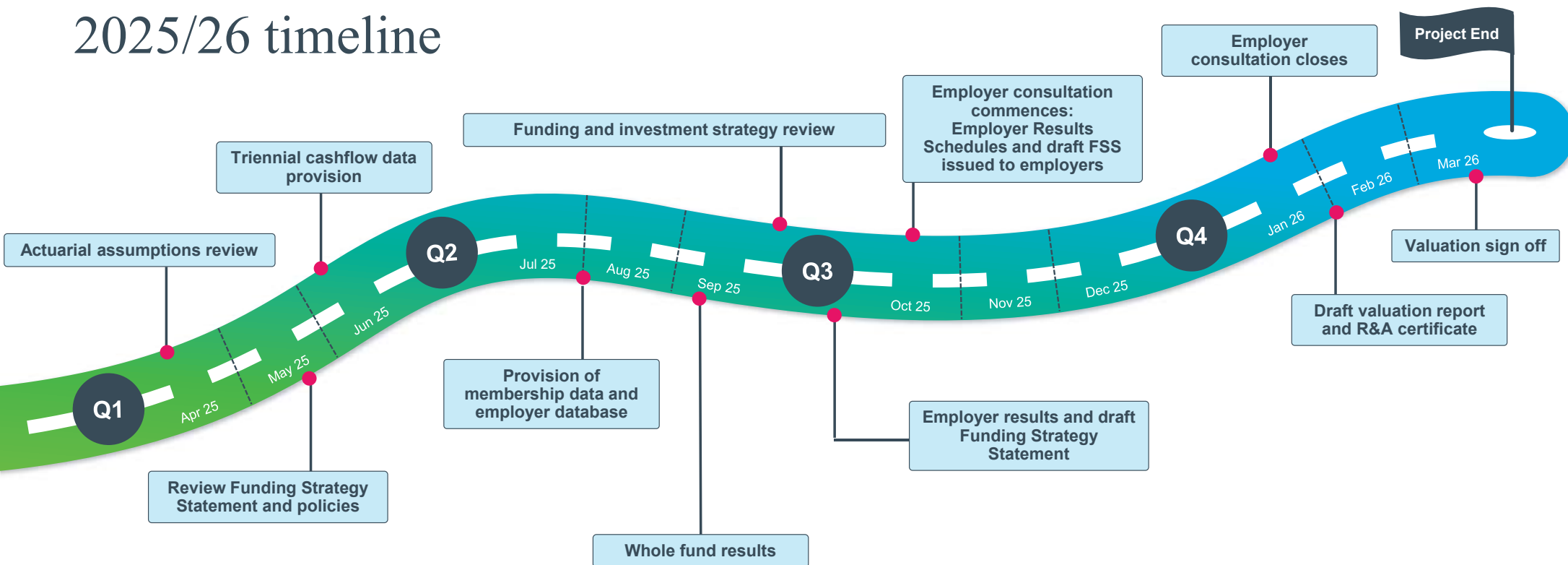
- Everything else being equal you would expect lower funding levels (left hand side) to correspond to higher contribution rates.
- GAD has raised amber flags against the two funds indicated as it considers that the current contribution rates will not be sufficient to reach full funding on a best estimate basis within the deficit recovery period used at the valuation.
- This analysis is limited as it doesn't allow for different investment strategies or lump sum payments made outside of the regular contributions certified.
- London Borough of Havering Pension Fund is indicated. **No flags were raised against the Fund for long-term cost efficiency concerns.**

# Looking ahead to the 2025 valuation

# 2024/25 timeline



# 2025/26 timeline



# Current pressures on the valuation

Reasons for Caution

**Future asset returns**

Central banks signalling economic slow-down

**Inflation**

BoE signalling higher than 2% expectations

**Government policy**

Interference in investment risks, real pay growth

Reasons for Optimism

**Higher interest rates vs 2022**

Puts downwards pressure on contribution rates

**Investment returns**

In line with actuarial expectation

**Benefit uncertainty**

Cost-sharing and McCloud increasingly settled

Known unknowns

**Pensions review**

Potentially impacting investment risk / benefits

**GAD Section 13**

Increasing focus on intergenerational fairness

**Council funding**

Government support still not clear





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