Harrow COUNCIL
LONDON

Pension Board Agenda

Date: **Thursday 3 March 2022**

Time: **6.30 pm**

Venue: **Virtual Meeting - Online**

Membership (Quorum 3, including at least one Employer representative and one Scheme Member representative).

Chair: **Mr R Harbord**

Board Members:

Councillor James Lee	-	Harrow Council, Employer Representative
Gerald Balabanoff (VC)	-	Scheme Members' Representative - Pensioners
Patrick O'Dwyer	-	Scheme Members' Representative - Active Members
Dr Simon Radford	-	Employer Representative – Scheduled and Admitted Bodies

Contact: Nikoleta Kemp, Senior Democratic and Electoral Services Officer
Tel: 07761 405898 Email: nikoleta.kemp@harrow.gov.uk

Scan this code for the electronic agenda:

Useful Information

Meeting details

This meeting is open to the press and public and can be viewed on
www.harrow.gov.uk/virtualmeeting

Filming / recording of meetings

Please note that proceedings at this meeting may be recorded or filmed. If you choose to attend, you will be deemed to have consented to being recorded and/or filmed.

The recording will be made available on the Council website following the meeting.

Agenda publication date: Wednesday 23 February 2022

Agenda - Part I

1. **Declarations of Interest**
To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

(a) all Members of the Committee;
(b) all other Members present.

2. **Minutes** (Pages 5 - 12)
That the minutes of the meeting held on 16 December 2021 be taken as read and signed as a correct record.

3. **Public Questions ***
To receive any public questions received in accordance with Committee Procedure Rule 17.

Questions will be asked in the order in which they were received. There will be a time limit of 15 minutes for the asking and answering of public questions.

[The deadline for receipt of public questions is 3.00 pm, 28 February 2022. Questions should be sent to publicquestions@harrow.gov.uk

No person may submit more than one question].

4. **Petitions**
To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

5. **Deputations**
To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

6. **Pensions Administration Update to 31 December 2021** (Pages 13 - 20)
Report of the Director of Finance and Assurance.

7. **Review of Pension Fund Committee Items** (Pages 21 - 26)
Report of the Director of Finance and Assurance.

8. **Government Actuary's Department (GAD) Section 13 Report on the LGPS 2019 Triennial Valuation** (Pages 27 - 152)
Report of the Director of Finance and Assurance.

9. **Review of Fund Policies** (Pages 153 - 176)
Report of the Director of Finance and Assurance.

10. **Pension Board Work Programme for Future Meetings** (Pages 177 - 180)
Report of the Director of Finance and Assurance.

11. **Any Other Business**
Which cannot otherwise be dealt with.

Agenda - Part II - Nil

*** Data Protection Act Notice**

The Council will record the meeting and will place the recording on the Council's website.

[**Note:** The questions and answers will not be reproduced in the minutes.]

Pension Board

Minutes

16 December 2021

Present:

Chair:	Mr R Harbord	
Board Members:		
	Gerald Balabanoff (VC)	Scheme Members' Representative - Pensioners
	Patrick O'Dwyer	Scheme Members' Representative - Active Members
	Dr Simon Radford	Employer Representative – Scheduled and Admitted Bodies
Apologies received:	Councillor James Lee	

1. Declarations of Interest

RESOLVED: To note that the declarations of interests had been published on the website and would be taken as read.

2. Minutes

RESOLVED: That the minutes of the meeting held on 6th October 2021, be taken as read and signed as a correct record.

3. Public Questions

RESOLVED: To note that no public questions had been received.

4. Petitions

RESOLVED: To note that no petitions had been received.

5. Deputations

RESOLVED: To note that no deputations had been received.

Resolved Items

6. Pensions Administration Update to 30 September 2021

The Board received a report on Pensions Administration Update for the quarter ending on 30 September 2021, which provided a summary of the Pension Administration Team's performance and updated Members on a number of other items.

During the discussion that ensued, the following points were highlighted:

1) the pensions administration performance statistics were measured against the national benchmarks for the Quarter to 30 September 2021 and were set out in Appendix 1 to the officer report. Service performance remained good and case numbers were added to the performance monitoring statistics set out in Appendix 1 for completeness;

2) the Fund membership had increased particularly with respect of the active members although a significant number of members had also retired during the last quarter;

3) a resolution to a complaint submitted to the Pensions Ombudsman in December 2020 regarding ill health retirement was still being awaited. Since the last Board meeting in October 2021, further two cases had been referred to the Ombudsman, both relating to decisions around ill health retirement. Despite all Ombudsman deadlines being met on time by Harrow's Pension Team, a decision on all three cases was still being awaited with a delay of several months likely due to a backlog of complaints that the Ombudsman's service was dealing with. Whilst

outside of the Council's control, this was a significant and unsatisfactory delay which was likely have material consequences for the complainants;

4) following training held at the November Pension Fund Committee, the Pensions Team had commenced preparations for the triennial valuation, with a timetable of the process included in the officer report;

5) no further updates on the McCloud judgement since the last Board meeting had been received. The Bill to amend the Public Service Pensions Act was currently progressing through Parliament with draft LGPS regulations expected to be issued for consultation by the end of 2021. Guidance on investment pooling was also being awaited; and

6) a draft Government Actuary's Department (GAD) "section 13" report setting out 2019 valuation results for all LGPS funds had been published on 16th December 2021 and would be reported to the March 2022 Board meeting.

The Board welcomed the updates and commended Harrow's Administration Team for their performance and high standards as demonstrated by the report.

RESOLVED: That the Report be noted.

7. Audit of Pension Fund Annual Report and Accounts for 2020-21

The Board received a report on the Audit of Pension Fund Annual Report and Accounts for 2020-21 for the year ended 31 March 2021.

The Interim Pensions Manager stated that the audit had been completed and the accounts for 2020/21 were due to be signed off on 17th December 2021. He noted that whilst the statutory deadline for publishing the accounts of 1st December 2021 had not been met due to delays with the Council's Auditors – Mazars, this was not due to any action or inaction by the Council. He added that the accounts were in a good shape with no issues to report and a certificate of consistency would be issued in due course.

The Board commented on the fact that Harrow was one of the first local authorities to have its accounts signed off which was a good overall achievement.

Members welcomed the report and did not raise any further comments.

RESOLVED: That the outcome of the audit for the year ended 31 March 2021 as set out the officer report, be noted.

8. Review of Fund Policies

As agreed at the October 2021 meeting and in preparation for the implementation of the Good Governance Review in 2022, the Board received a report on two of the Pension Fund policies – namely the Conflicts of Interest Policy and the Breaches Policy - and sought comments and suggestions from Members.

During the discussion that ensued the following points were raised with respect to each of the two policies:

<u>Conflicts of Interest</u>

1) Responding to a question on the format of the Conflicts of Interest Policy and how it reconciled with the Council's Declarations of Interest Policy (DOI), the Board was informed that the former was an overarching policy which set out the definitions of a conflict of interest, the situations where conflicts may arise and the principles which would be applied in managing those appropriately. Given that the Council had a dual role – as an administrative authority for the LBH Pension Fund and as a local authority for the area - it was important to ensure that the elected members who sat on the Pension Fund Committee (PFC) represented the interests of the PF rather than the Council as the local authority. The DOI on the other hand related more to members' personal interests and were declared as part of the governance process.

2) The Board commented that with some Pension Funds going heavily into surplus it expected added pressure from employers to reduce employer contributions without considering the overall position of the Fund, which in turn could lead to a potential conflict of interest.

3) A Member commented that the Council had to be mindful of, manage carefully and where applicable avoid the appointment of members who had a dual role or were involved in bodies responsible for the management of council's finances;

4) The Board noted the involvement of the Chair of the PFC in the London Collective Investment Vehicle (CIV) and asked whether this should be taken into consideration as it could lead to a potential conflict of interest between Harrow and the CIV. In fact, as the LBH Pension Fund is one of the shareholders of the London CIV, the Chair's role was to be the shareholder's (ie the LBH Pension Fund's) representative at the CIV's General Meetings of its shareholders.

5) Conflict of interest was also dependent on the level of understanding of Pension Board and PFC Members' roles and commitment to ensure that the Fund's liabilities were covered by its assets. This could be problematic especially in the context of climate change and zero carbon targets where a conflict between breaching net carbon and investment return may occur.

6) The Board suggested that a statement prompting the individual if in doubt to seek advice on potential conflicts of interest be added to the main policy;

7) Referencing page 69 of the report, a Member commented on the "unenviable" position in which the Director of Finance was put by being directly named thereby placing significant responsibility for which they had no statutory authority. Instead it was suggested that the wording be

amended replacing "Director of Finance" with "Section 151 Officer, in conjunction with the Head of Paid Service and Monitoring Officer" instead.

Breaches Policy:

The interim Pensions Manager introduced the policy stating that the document presented to the Pension Board as part of the agenda for this meeting was the same as what was last approved at the end of 2016 and was currently in operation. Breaches were reported on a quarterly basis with none identified in recent years.

In noting that the Board itself had a role in reporting breaches, even if they were its own and referred them to the Monitoring Officer, Members noted the Breaches Policy and did not raise any further comments.

RESOLVED: That the Report be noted and that the Conflicts of Interest Policy and Breaches Policy be recommended to the Pension Fund Committee.

9. Review of Pension Fund Risk Register

The Board received a report on the updated Pension Fund Risk Register for consideration and review.

The Interim Pensions Manager introduced the report stating that the register was last reviewed by the Board at its meeting on 8th July 2021, with no significant changes to the risks since then. In reviewing the existing risk register, officers had followed the Council's standard practice and approach to the scoring of each risk by assessing the likelihood and impact on the Pension Fund and categorising them accordingly. A number of high ("red") risks were set out in Appendix 2 to the report, majority of which related to movements in the financial markets, which were outside of the Pension Fund's control or to the workload arising from the McCloud judgement, which was proactively being mitigated by collecting additional historic data from employers. No new risks had been highlighted in Appendix 2.

In response to a question on Covid-19 related risks, it was explained that this was considered a "business as usual" risk, covered under operational mitigation but if required, could be added to the risk register and wording amended accordingly.

RESOLVED: That the updated risk register as set out in the officer report and accompanying appendices, be noted.

10. Review of Pension Fund Committee Items (24 November 2021)

Having noted the confidential Appendix 2 to the officer report, the Board received a report which summarised the matters considered by the Pension Fund Committee Items at its last meeting on 24 November 2021 and invited the Board's comments.

During the discussion that ensued the following key points were highlighted:

1) A technical amendment to the definition of "Regulatory Capital" in the Shareholder Agreement and Articles of Associate had been approved

by the London Collective Investment Vehicle (CIV) following some additions to its range of fund offerings;

2) Arrangements to appoint two independent advisors to the Pension Fund were under way as current contracts were due to expire in March 2022. Recommendations for appointees were expected to be made at the next Pension Fund Committee (PFC) meeting in March 2022;

3) As at 30 September 2021, the Pension Fund's investments were valued at just over £1bn with estimated liabilities at £985m and investment funding level of 104% value just over £1bn – this was an improvement since the last valuation mainly due to higher than expected returns on investments during the most recent quarter;

4) Environmental, Social and Governance (ESG) reporting and dashboard had been agreed by the PFC. Options offered by Blackrock for exercising voting rights in respect of the Fund's passive equity investments were also considered and having considered a number of possible options, it was agreed that the approach of continuing to use Blackrock's Investment Stewardship division to vote on the Fund's behalf remained the most appropriate. With regards to the ESG dashboard, set out in the exempt Appendix 2, it was expected that subject to confirmation from Aon, once completed with Harrow's data it would become a publicly accessible document.

5) Referencing Appendix 1 to the report, which set out the Fund's valuation and performance for the period March 2021 – March 2022, in particular with regards to the valuation of assets without a specific market class, the Board was informed that this referred to all liquid assets. Property was of particular concern due to the impact of the Covid-19 pandemic and the uncertainly around valuation of commercial property. Other assets where the market was less obvious private equity investment, infrastructure fund and renewables infrastructure (since July 2021).

6) With regard to funding and liabilities, the Board was informed that under current statue it was not possible to outsource risk to third parties even if its funding level exceeded acceptable thresholds. Funds are expected to manage this through modification of investment strategies (eg lowering risk as funding levels increase and vice versa). Other factors which had to be taken into account included the Fund's cash flow position (in Harrow's case most returns were reinvested) as well as the assumptions made by the Actuary particularly the discount rate applied to future liabilities. Any large surpluses highlighted by triennial valuations opened the possibility for review of the employer contribution rates and would normally be managed through adjustment of secondary employer contribution rates to avoid potential problems.

RESOLVED: That the report be noted and that a further report on the Government Actuary's Section 13 report on the 2019 Valuation be included on the agenda for the March 2022 Board meeting.

11. Pension Board Work Programme For Future Meetings

Members received a report on the Pension Board Work Programme, which listed forthcoming items for consideration as well as dates of upcoming Board meetings for the remainder of 2021/22 and proposed dates for 2022/23 Municipal Year.

The Board welcomed the programme, suggesting that specific training needs and opportunities be identified and incorporated in the work programme as part of the development of the Board Members.

RESOLVED: That the date of the remaining meeting for 2021/22 and the proposed dates and work programme for 2022/23 as set out in the officer report, be noted.

12. Review of Pension Fund Committee Items (24 November 2021)

See Minute 10.

(Note: The meeting, having commenced at 6.30 pm, closed at 7.33 pm).

(Signed) Richard Harbord
Chair

This page is intentionally left blank

Report for:	**Pension Board**
Date of Meeting:	3 March 2022
Subject:	Pensions Administration Update to 31 December 2021
Responsible Officer:	Dawn Calvert – Director of Finance and Assurance
Exempt:	No
Wards affected:	Not applicable
Enclosures:	Appendix 1: Pension Administration Performance Monitoring to 31 December 2021

Section 1 – Summary and Recommendations

This report summarises the performance of the Pensions Administration team for the quarter ended 31 December 2021 and updates the Board in respect of a number of other items.

Recommendations:

The Board is requested to note the report.

Section 2 – Report

1. Monitoring the service performance of the Fund is a key responsibility of the Board. The Board has been monitoring comparative pensions administration indicators since June 2017. This report provides information on performance to 31 December 2021.

2. The pensions administration performance statistics measured against the national benchmarks for the Quarter to 31 December 2021 are set out in Appendix 1. The numbers of cases have been included in the table to provide further contextual information about performance. The Board is invited to comment on this performance.

3. Table 1 below sets out the membership of the Pension Fund in the current year at 31 December 2021, with previous years at 31 March as a comparator. The percentage of active members in the fund is one indicator of the maturity of the fund.

Table 1	Pension Members to 31 December 2021			
	31 March 2019	31 March 2020	31 March 2021	31 December 2021
Pensioners	5,795	6,004	6,196	6,420
Deferred	6,966	7,037	7,033	6,965
Active Members	5,400	5,410	5,309	5,517
% Active Members	29.7%	29.3%	28.6%	29.19%
Total	18,161	18,451	18,538	18,902

4. The three yearly "re-enrolment" exercise for members who had previously opted out of the LGPS is required will carried out by LBH in its capacity as a scheme employer before 31 July 2022. It is possible that this may lead to an increase in the number of active members reflected in these statistics towards the end of 2022.

Requirement to Report Breaches of Law

5. The Pension Board reviewed the breaches in law policy and breaches reporting procedure at its meeting on 16th December 2021 – the document will be submitted for approval by the Pension Fund Committee at its meeting on 9th March 2022.

6. There have been no known breaches of law in the current financial year to date.

Internal Disputes Cases and Complaints

7. No internal disputes or complaints have been raised since the previous report.

8. As reported to previous meetings of the Board, three complaints have been referred to the Pensions Ombudsman. In all three cases, Harrow responded to the Ombudsman within his deadlines – in one case in January 2021, and in the other two, October 2021. All three cases relate to decisions taken regarding ill health retirement, and the decisions of the Ombudsman are awaited.

9. The Pensions Ombudsman has indicated that their office is dealing with a large number of complaints, (most of which are not related to the LGPS) and that it may be "several months" before they write to LBH again. Whilst this situation is unsatisfactory for the three complainants, as indicated above, the delays are not of Harrow's making.

Payment of Employer Contributions

10. Employer contributions are required to be paid in arrears by the 19th of each month. All employer contributions have been paid on time in 2021-22 to date. Employers are contacted if payment has not been received by the due date.

Update on Legislation Changes

McCloud

11. As previously reported, following the 2020 Consultation, on 13th May 2021 the Government announced plans to implement the changes proposed in the consultation from 1 April 2023. On 19 July 2021, a bill was put before Parliament amending the Public Service Pensions Act 2013 to rectify unlawful discrimination in public service pension schemes. The Bill to amend this Act was progressing through the committee Stage in the House of Commons during the week beginning 24 January 2022 and the draft LGPS regulations for consultation are still awaited.

12. Once there is some certainty regarding the structure of the new Regulations, the LGPS software providers will be able to make the necessary changes – LBH has progressed the collection of data from employers in preparation for the changes when these are eventually implemented.

Exit cap

13. As reported previously, the Public Sector "Exit Cap" Regulations were repealed in February 2021, and the Government announced that measures to achieve the cap's intended outcomes would be implemented later in 2021. On 28th May, the Government issued Guidance on "Special Severance payments" to the rest of the public sector. The position is unchanged from the last meeting, in that a consultation in respect of the LGPS is still awaited.

Other Matters

Scheme Advisory Board (SAB)

14. The SAB's most recent meeting was on 13 December 2021. Items considered were
    - Investment cost transparency and reporting thereof
    - A letter from Mr. Michael Lynk, United Nations Special Rapporteur on the Palestinian Territories which asks a number of questions of LGPS funds regarding their investments. The SAB is liaising with LAPFF regarding an appropriate response.
    - Replacement of the CIPFA Pensions Panel with an SAB "Compliance and Reporting Committee". One of this Committee's important functions will be to review, develop and issue guidance on LGPS Funds' Annual Reports and Accounts.
    - Investment, including Cost Management

15. The agenda and papers can be found at the following link https://lgpsboard.org/index.php/about-the-board/prev-meetings

Levelling Up White Paper

16. The Government published its White Paper on “Levelling Up the UK” on 2 February 2021. Included in the paper is a statement that *“The UK Government will go further and work with Local Government Pension Funds to publish plans for increasing local investment, including setting an ambition of up to 5% of assets invested in projects which support local areas.”*

17. It is currently unclear how this will be achieved and over what timescale, although it is thought that a Consultation Paper will be issued later this year, and that this paper may also cover pooling guidance and climate change matters.

Triennial Valuation 2022

18. In preparation for the triennial valuation based upon the Fund’s position as at 31 March 2022, the Pension Fund Committee received a training presentation from Laura McInroy of Hymans Robertson before its last meeting on 24 November 2021. Members of the Board were invited to attend, and Laura explained the process and set out an outline timetable for the valuation and reporting of the results. This was reported to the Board’s last meeting.

19. The activities currently in progress are
    - initial data cleansing work which began in Q4 of 2021 is continuing
    - officers are working with Hymans Robertson to consider the key actuarial assumptions (investment returns, inflation and pay growth, mortality) to be applied in the valuation. These will be reported to the Pension Fund Committee on 9th March 2022.

20. Further reports will be submitted to the Pension Fund Committee and to the Board as the valuation work progresses.

Legal Implications

21. There are no direct legal implications arising from this report.

22. The terms of reference for the Board include assisting the Administering Authority (London Borough of Harrow) as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme.

Financial Implications

23. There is a cost of engaging Aquila Heywood to assist in the collection of employer data in readiness to implement fully the McCloud Judgement when the new Regulations become available. The work to deliver the triennial valuation will result in additional fees payable to the Fund's actuary, Hymans Robertson. These costs are being / will be met from the Pension Fund.

Risk Management Implications

24. The Pension Fund's Risk Register is reviewed regularly by both the Pension Fund Committee and by the Board. The next review will be considered elsewhere on the agenda for this meeting.

25. There are no specific risk management implications arising from this report.

Equalities implications / Public Sector Equality Duty

26. Was an Equality Impact Assessment carried out? No

27. There are no direct equalities implications arising from this report, although as the Committee is aware, the McCloud Judgement arose from a Equalities Claim against another public sector pension scheme.

Council Priorities

28. The performance of the Pension Fund directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Statutory Officer: Dawn Calvert
Signed by the Chief Financial Officer
Date: 09/02/2022

Statutory Officer: Sharon Clarke
Signed on behalf of the Monitoring Officer
Date: 09/02/2022

Chief Officer: Charlie Stewart

Signed by the Corporate Director
Date: 09/02/2022

Mandatory Checks

Ward Councillors notified: Not Applicable

Section 4 - Contact Details and Background Papers

Contact: Jeremy Randall – Interim Pensions Manager
Email: Jeremy.randall@harrow.gov.uk
Telephone 020 8736 6552

Background Papers: None

Appendix 1

Performance Monitoring 01/10/2021 – 31/12/2021

SERVICE	National Benchmarking Target	Harrow Achievement %	Cases within Target	Total Cases
Issue letter notifying of dependent's benefit	**5 days**	**72.73**	**8**	**11**
Calculation and notification of ill health estimate	**10 days**	**100**	**2**	**2**
Calculation and notification of retirement benefits estimate	**10 days**	**91.30**	**42**	**46**
Issue letter to new pension provider detailing transfer-out quote	**10 days**	**100**	**10**	**10**
Calculation and notification of deferred benefits	**10 days**	**98.86**	**87**	**88**
Calculation and notification of retirement benefits	**5 days**	**93.75**	**30**	**32**
Process refund and issue payment	**5 days**	**100**	**10**	**10**
Calculation and notification of ill health benefits	**5 days**	**100**	**3**	**3**
Issue statutory notification on receipt of transfer funds	**10 days**	**85.11**	**1**	**4**

This page is intentionally left blank

Harrow COUNCIL LONDON

Report for:	**Pension Board**
Date of Meeting:	3 March 2022
Subject:	Review of Pension Fund Committee Items
Responsible Officer:	Dawn Calvert – Director of Finance and Assurance
Exempt:	No
Wards affected:	Not applicable
Enclosures:	Appendix 1 – Pension Fund Valuation at 31 December 2021

Section 1 – Summary and Recommendations

This report summarises the matters to be considered by the Pension Fund Committee at its next meeting on 9 March 2022 and invites the Board to agree any comments they might wish to make to the Pension Fund Committee.

Recommendations:
The Board is requested to note the report and comment as necessary.

Section 2 – Report

1. The list of items to be considered by the Pension Fund Committee at its meeting on 9 March 2022 is summarised in the table below.

Report	Comments
Part I	
Appointment of Independent Advisors	To report the outcome of the recruitment and appointment process.

Performance Dashboard and Update on Regular items	The Committee will consider the report, which summarised the position of the Fund at the end of Q4 2021 (31 December 2021) and agreed a draft work programme for the Committee for the 2022-23 municipal year.
Review and Approval of Fund Policies	To consider and approve four Fund Policies. Two were considered at the Board's last meeting and comments incorporated accordingly - Breaches Policy - Conflicts of Interest Policy The other two are elsewhere on the agenda for this meeting of the Board, and any comments will be sent to the Committee as late material. - Pension Fund Administration Strategy - Training Policy
External Audit Plan for 2021-22 Audit of Annual Report and Accounts	If available from Mazars, the audit plan will be considered and commented upon by the Committee.
Review of Pension Fund Risk Register	To consider and comment upon the latest review of the Register
Part II	
2022 Triennial Valuation – Review of Assumptions	The Fund's Actuary – Laura McInroy of Hymans Robertson – will present to the Committee on the approach and assumptions to be used in the valuation. The report will be in part 2 as Hymans Robertson regard the valuation methodology as being their intellectual / commercial property.
Review of Emerging Market Equities	Following the Manager Day held in October 2022, with the help of its Investment Consultants (Aon) and its Independent Advisors, the Committee has undertaken a review of its emerging market equities. The report will set out a recommendation and next steps.

2. At the time of writing this report, Aon's Investment dashboard as at 31 December 2021 was not available.

3. The Pension Fund's investments were valued at £1,057m at 31 December 2021. The details are shown at appendix 1. As previously reported, the planned changes to the Fund's Fixed Income portfolio have been completed. There have been further drawdowns to both the LCIV Infrastructure Fund and the LCIV Renewables Infrastructure Fund in January and February 2022. At 31 December 2021, 68.9% of the Fund's investments were pooled or in passive investments which are regarded as being pooled.

4. As indicated above, the final meeting of the Pension Fund Committee in the 2021-22 municipal year is scheduled to take place on Wednesday 9th March 2022. The meetings is scheduled to start at 6.30pm. After discussion with the Committee members, it has been agreed that there will not be a training session before this meeting. All Board members are welcome to attend the meeting. The meeting will continue to be held in hybrid form, with only the voting members and some officers required to be "physically present" with others joining via Microsoft Teams.

Legal Implications

5. There are no direct legal implications arising from this report.

6. The terms of reference for the Board include assisting the Administering Authority (London Borough of Harrow) as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme.

Financial Implications

7. Whilst the performance and effective controls of the fund managers is of paramount importance in the performance of the Pension Fund, there are no direct financial implications arising from this report.

Risk Management Implications

8. The Pension Fund's Risk Register is reviewed regularly by both the Pension Fund Committee and by the Board. The next review will be considered by the Board at this meeting.

9. There are no specific risk management implications arising from this report. The level of risk to which its investments are exposed is a key component in developing the Fund's investment strategy

Equalities implications / Public Sector Equality Duty

10. Was an Equality Impact Assessment carried out? No

11. There are no direct equalities implications arising from this report.

Council Priorities

12. The performance of the Pension Fund directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Statutory Officer: Dawn Calvert
Signed by the Chief Financial Officer
Date: 09/02/2022

Statutory Officer: Sharon Clarke
Signed on behalf of the Monitoring Officer
Date: 08/02/2022

Chief Officer: Charlie Stewart
Signed on behalf of the Corporate Director
Date: 09/02/2022

Mandatory Checks

Ward Councillors notified: Not Applicable

Section 4 - Contact Details and Background Papers

Contact: Jeremy Randall – Interim Pensions Manager
Email: Jeremy.randall@harrow.gov.uk
Telephone: 020 8736 6552

Background Papers: None

Appendix 1

Fund Valuation and Performance

March 2021 to March 2022

Asset Class	Value 31.03.2021 £'000	Value 30.04.2021 £'000	Value 31.05.2021 £'000	Value 30.06.2021 £'000	Value 31.07.2021 £'000	Value 31.08.2021 £'000	Value 30.09.2021 £'000	Value 31.10.2021 £'000	Value 30.11.2021 £'000	Value 31.12.2021 £'000	Allocation 31.12.2021 %	Strategic Allocation %	Strategic Range %
Global Equities													
LCIV - Global Equity Focus Fund	120,618	117,880	117,743	117,658	121,362	125,200	122,078	124,694	121,629	126,700	12	10	
LCIV - Blackrock Passive	247,575	247,596	245,542	255,490	255,906	265,034	261,290	266,066	270,848	276,580	26	24	
LCIV - Sustainable Equity Fund	67,238	70,905	70,967	73,242	74,336	78,200	75,174	78,595	79,601	80,127	8	8	
GMO	89,731	81,215	80,238	83,116	77,932	79,306	77,815	77,941	76,967	77,257	7	8	
Record passive currency hedge	8,136	2,255	6,863	2,496	1,228	-592	-4,041	957	-5,251	-727	0		
Total Global Equities	533,298	519,851	521,353	532,003	530,763	547,149	532,316	548,252	543,793	559,938	**53** Inc Hedging	**50**	**45-55**
Diversifying Return Assets													
Diversified Growth Fund - Insight	99,827	101,883	102,842	103,680	103,873	104,940	103,590	95,190	94,349	96,315	9	5.5	
Property - LaSalle	61,561	61,717	61,821	63,120	63,359	63,576	65,093	65,368	65,766	68,849	7	6	
Renewables - LCIV Renewables Fund	0	0	0	0	3,781	3,781	3,781	12,347	13,071	13,071	1	5	
Infrastructure - LCIV Infrastructure	16,099	16,735	17,200	18,534	18,763	19,245	21,160	25,581	25,581	26,574	3	7.5	
Private Equity - Pantheon	6,989	6,989	6,989	7,659	7,659	7,659	7,138	7,138	7,138	6,817	1	1	
Total Diversifying Return Assets	184,476	187,324	188,852	192,994	197,435	199,201	200,761	205,625	205,905	211,626	**20**	**25**	**20-30**
Risk Control Assets													
Bonds - Blackrock - FI	97,538	98,019	97,839	100,345	102,647	102,829	75,976	45,893	46,875	45,809	4	5	
Bonds - Blackrock - IL active	24,823	24,925	25,465	25,844	27,528	28,038	608	0	0	0	0	0	
Bonds - Blackrock - IL passive LCIV	0	0	0	0	0	0	47,081	49,483	52,834	49,579	5	5	
Bonds - LCIV Global Bond Fund	0	9,994	20,090	20,367	20,497	20,612	20,388	50,101	50,369	50,416	5	5	
MAC - LCIV MAC Fund	101,226	102,084	102,657	103,229	103,611	104,183	104,470	104,565	104,660	105,519	10	10	
Total Risk Control Assets	223,586	235,022	246,050	249,785	254,283	255,662	248,523	250,041	254,739	251,323	**24**	**25**	**20-30**
Cash & NCA													
Cash Managers (Blackrock)	12,726	12,726	12,727	12,727	12,728	12,728	12,729	12,729	12,730	12,730			
Cash NatWest	4,399	23,084	11,888	11,692	8,180	7,386	6,546	4,151	3,610	3,464			
Cash Custodian (JP Morgan)	7,949	13,601	13,600	13,599	16,054	16,053	16,052	14,372	14,371	14,370			
Blackrock Dividends (Pending Reinvestment)	0	695	695	0	694	695	694	694	1,182	1,182			
Debtors and Creditors	1,401	1,467	2,024	2,445	2,300	2,520	2,176	2,221	2,074	1,989			
CIV Investment	150	150	150	150	150	150	150	150	150	150			
Total Net Current Assets	26,625	51,723	41,084	40,614	40,106	39,532	38,347	34,317	34,116	33,886	3	0	
Total Assets	967,984	993,920	997,338	1,015,395	1,022,587	1,041,543	1,019,948	1,038,236	1,038,554	1,056,773	100	100	
Assets Pooled													
- LCIV Funds	31.5%	32.0%	33.0%	32.8%	33.5%	33.7%	34.0%	38.1%	38.0%	38.1%		45.5%	
- Other (Passive) Funds - Regarded as Pooled	25.6%	24.9%	24.6%	25.2%	25.0%	25.4%	30.2%	30.4%	31.2%	30.9%		29.0%	
Total % Pooled	57.1%	56.9%	57.6%	58.0%	58.5%	59.2%	64.3%	68.5%	69.2%	68.9%		74.5%	

This page is intentionally left blank

Report for: Pension Board

Date of Meeting:	3 March 2022
Subject:	Government Actuary's Department (GAD) Section 13 Report on the LGPS 2019 Triennial Valuation
Responsible Officer:	Dawn Calvert – Director of Finance and Assurance
Exempt:	No
Wards affected:	Not applicable
Enclosures:	Appendix 1 – GAD Section 13 Report Appendix 2 – Appendices to GAD Section 13 Report

Section 1 – Summary and Recommendations

This report summarises the key points in the Government Actuary's Department Report into the 2019 LGPS Triennial Valuation.

Recommendations:
The Board is recommended to note the report

Section 2 – Report

1. The purpose of Section 13 of the Public Services Pensions Act 2013 was to issues of compliance, consistency, solvency and long term cost efficiency across the range of LGPS Funds. To do this, it carries out a detailed analysis of each triennial valuation, with all funds' valuation calculations being rebased using a set of common assumptions. This provides a measure of

comparison between different funds whose actuaries use different valuation approaches, methods or assumptions.

2. The full report is lengthy, and its content quite technical. It is enclosed at Appendix 1, and the various appendices to the Report are included at Appendix 2.

3. The key findings of the Report are as follows:
    - The overall funding level of the LGPS has improved from the 2016 valuation – this is largely due to the impact of strong investment returns in the period 2016-19.
    - The size of funds (assets and liabilities) has increased significantly since 2016, while the budgets of the main employers (local authorities) have not done likewise. This means that should a future fall in funding levels require an increase in employer contributions, this will put a strain on those budgets, increasing the solvency risk to some funds.
    - GAD has raised warning "flags" where solvency and long term cost efficiency considerations have caused them some concern. These highlight funds where
        - Employer contributions appear too low when considered alongside GAD's deficit period, required return and return scope. (2 funds)
        - Employer contributions are reducing while the deficit recovery period is extended further (in effect shifting the burden from current to future taxpayers (2 funds)
    - GAD also engaged with two further funds – as a result of the engagement and clarification, neither of these funds was "flagged". The sic funds are named in the report.
    - It should be noted that Harrow was **not** one of the six funds referred to in the above points.

4. The report contains four recommendations, as follows:
    i. The Scheme Advisory Board should consider the impact of inconsistency on the funds, participating employers and other 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.
    ii. The Scheme Advisory Board consider 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.
    iii. Fund actuaries provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard
    iv. The Scheme Advisory Board review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around any such transfers to achieve long term cost efficiency.

5. The appendices (Appendix 2 to this report) contain more detailed analysis and explanation. The following are of particular interest, as they provide more "fund specific" detail.

- Chart B1 – this compares the "ranking" of Funds' funding levels on a local basis (i.e. their own actuary's valuation report) and on a standardised (GAD) basis. For LBH the position is
    - Local basis 94% (50th of 88)
    - GAD basis 101% (65th of 88)

  The table highlights that many funds have very similar funding levels. There are 20 funds whose local funding level is between 92 and 96%, and 16 whose standard (GAD) funding level are between 99% and 103%.
  The table also shows that, using a "local assumptions" basis, the best funded has a funding level of 125%, while the worst funded of the open schemes (there is one closed scheme – the Environment Agency) is at 70%. Using standard GAD assumptions, the best funded is at 147%, and the worst at 81%.

- Chart B3 The discount rates used by actuaries in respect of past service liabilities in the local valuations for the open funds vary between 3.5% and 5.4%. the rate used for Harrow was 4.6%.

6. The Fund's actuary, Hymans Robertson, are reviewing the report, and they will take into account as necessary those aspects which affect the approach to the forthcoming 2022 valuation.

Legal Implications

7. There are no direct legal implications arising from this report.

8. The terms of reference for the Board include assisting the Administering Authority (London Borough of Harrow) as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme.

Financial Implications

9. Whilst the financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities there are no impacts arising directly from this report.

Risk Management Implications

10. The Pension Fund's Risk Register is reviewed regularly by both this Pension Fund Committee and by the Board. The next review is elsewhere on the agenda for this meeting.

11. There are no specific risk management implications arising from this report. The level of risk to which its investments are exposed is a key component in developing the Fund's investment strategy.

Equalities implications / Public Sector Equality Duty

12. Was an Equality Impact Assessment carried out? No
    There are no direct equalities implications arising from this report.

Council Priorities

13. The performance of the Pension Fund directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Statutory Officer: Dawn Calvert
Signed by the Chief Financial Officer

Date: 22/02/2022

Statutory Officer: Sharon Clarke
Signed on behalf of the Monitoring Officer

Date: 09/02/2022

Chief Officer: Charlie Stewart
Signed by the Corporate Director

Date: 11/02/2022

Mandatory Checks

Ward Councillors notified: Not applicable

Section 4 - Contact Details and Background Papers

Contact: Jeremy Randall – Interim Pensions Manager
Email: Jeremy.randall@harrow.gov.uk
Telephone 020 8736 6552

Background Papers: None

Government
Actuary's
Department

Local Government Pension Scheme England and Wales

Section 13 Report as at 31 March 2019

November 2021

Martin Clarke FIA and John Bayliss FIA

Contents

At GAD, we seek to achieve a high standard in all our work. We are accredited under the Institute and Faculty of Actuaries' Quality Assurance Scheme. Our website describes **the standards** we apply.

1 Executive Summary

1.1 The Government Actuary has been appointed by the Department for 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 funds in the Local Government Pension Scheme in England and Wales ("LGPS" or "the Scheme").

1.2 Section 13 requires the Government Actuary to report on whether the following aims are achieved:

> Compliance

> Consistency

> Solvency

> Long term cost efficiency

1.3 This is the second formal section 13 report. Section 13 was applied for the first time to the fund valuations as at 31 March 2016. We refer to this as the 2016 section 13 report. The 2016 section 13 report was published in September 2018.

1.4 This report is based on the actuarial valuations of the funds, other data provided by the funds and their actuaries, and a significant engagement exercise with relevant funds. We are grateful to all stakeholders for their assistance in preparing this report. We are committed to preparing a section 13 report that makes practical recommendations to advance the aims listed above. We will continue to work with stakeholders to advance these aims and expect that our approach to section 13 will continue to evolve to reflect ever changing circumstances and feedback received.

Progress since 2016

1.5 We made five recommendations as part of the 2016 section 13 report. In summary we recommended that:

1. Standard information should be provided in a uniform dashboard format to facilitate comparisons between funds.

2. Consideration should be given to how greater clarity and consistency of actuarial assumptions could be achieved.

3. A common basis for academy conversions should be sought.

4. Within a named closed fund a plan should be put in place to ensure that benefits are funded in the event of insufficient contributions and exit payments.

5. Recovery plans could be demonstrated to be consistent with CIPFA guidance.

1.6 We are pleased to note good progress in relation to recommendations 1, 4 and 5. However we note that further progress is needed in relation to recommendations 2 and 3.

1.7 We set out our comments on this progress in more detail in Chapter 3.

Overall Comments

1.8 In aggregate the funding position of the LGPS has improved since 31 March 2016; and the scheme appears to be in a strong financial position, specifically:

- Total assets have grown in market value from £217 bn to £291 bn
- Total liabilities disclosed in the 2019 local valuation reports amounted to £296 bn. The local bases are required to be set using prudence
- The aggregate funding level on prudent local bases has improved from 85% to 98% (at 2019)
- The improved funding level is due in large part to strong asset returns over the 3 year period to 31 March 2019. Equities in particular performed strongly, averaging a return of circa 10-12% pa over the period. Funding also improved due to the continuation of substantial financial contributions from most LGPS employers
- The aggregate funding level on GAD's best estimate basis is 109% (at 2019). GAD's best estimate basis is the set of assumptions derived by GAD without allowance for prudence. There is a 50:50 likelihood of the actual experience being better or worse than the best estimate assumption, in our opinion
- We note that the size of funds has grown significantly over the three years to 31 March 2019. However, the ability of tax backed employers to increase contributions if this was to be required (as measured by their core spending power) has not kept pace. This could be a risk if, for example, there was to be a severe shock to return seeking asset classes

1.9 We set out below our findings on each of the four aims and our recommendations.

Compliance

1.10 Our review indicated that fund valuations were compliant with relevant regulations. However greater clarity on the assumptions used to determine contributions in the Rates and Adjustment certificate for some funds would be helpful.

Consistency

1.11 We interpret "not inconsistent" to mean that methodologies and assumptions used, in conjunction with adequate disclosure in the report, should facilitate comparison by a reader of the reports. Local circumstances may merit different assumptions. For example financial assumptions are affected by the current and future planned investment strategy, and different financial circumstances might lead to different levels of prudence being adopted.

1.12 Further to our recommendation as part of the 2016 section 13 report, we are pleased to note all funds have adopted a consistent "dashboard". We consider this a useful resource to aid stakeholders' understanding, because information is presented in a consistent way in the dashboards. We have suggested a few minor changes to further assist stakeholders going forward.

1.13 However, even given consistency in presentation in the dashboards, differences in the underlying methodology and assumptions mean that it is not possible to make a like for like comparison. We encourage further discussion on how assumptions are derived based on local circumstances in valuation reports.

1.14 We welcome the improvements of the evidential consistency of key assumptions, fund actuaries have provided more consistent rationalisation of assumptions in funding strategy statements. However, we note there appear to remain some areas of inconsistency. Furthermore, there are particular inconsistencies in the way Academy conversions are carried out in different funds, which derive from different valuation approaches. We believe that there are substantial benefits to improving consistency which are discussed later in the report.

> Recommendation 1:
> The Scheme Advisory Board should consider the impact of inconsistency on the funds, participating employers and other 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.

Solvency

1.15 As set out on the CIPFA website in CIPFA's Funding Strategy Statement Guidance, the employer contribution rate is appropriate if:

> the rate of employer contributions is set to target a funding level for the whole fund of 100% over an appropriate time period and using appropriate actuarial assumptions

and either:

> employers collectively have the financial capacity to increase employer contributions, should future circumstances require, in order to continue to target a funding level of 100%

or

> there is an appropriate plan in place should there be an expectation of a future reduction in the number of fund employers, or a material reduction in the capacity of fund employers to increase contributions as might be needed

1.16 Over the three years to 31 March 2019, funds' assets have grown by around a third and liabilities by around 15%. However, the size of the employers has not grown at the same pace. This increases the risk to funds if, for example, there was to be a sustained reduction in the value of return seeking assets. This represents a general increase in risk for the LGPS as a whole, so we provide a general risk comment (rather than focus on any individual funds).

1.17 In GAD's view, the prevailing economic conditions have deteriorated between 2016 and 2019. Many funds have reduced their contribution rates as a result of the improvement of their funding position. In our opinion, for some funds, the deterioration in economic conditions may have warranted a strengthening of the valuation basis, resulting in a requirement to maintain or increase contributions.

1.18 We have performed an asset liability modelling (ALM) exercise for the scheme as a whole. This modelling illustrated:

> potential for material variability around future employer contribution rates (the current investment strategy includes a high proportion of equity investments which contribute to this variability but has the upside potential of greater expected long term investment returns)

> the potential impact on funding levels if there were to be constraints on the level of employer contributions

1.19 The following risk comment highlights the ongoing risk that pension funding presents to local authorities. We are not suggesting administering authorities and their advisors are unaware of this risk, but we have illustrated possible implications in our ALM.

General risk comment

Local authorities have finite resources and in recent years the size of pension funds has increased considerably more than local authority budgets. Given that pension funding levels change it is not unlikely that a period of increased pension contributions may be required at some point in the future.

If additional spending is required for pension contributions this may lead to a strain on local authority budgets.

We would expect that administering authorities are aware of this risk in relation to solvency and would monitor it over time. Administering authorities may wish to discuss the potential volatility of future contributions with employers in relation to overall affordability.

Long term cost efficiency

Under solvency and long term cost efficiency we have designed a number of metrics and raised flags against these metrics to highlight areas where risk may be present, or further investigation is required, using a red/amber/green rating approach. Where we do not expect specific action other than a general review, we have introduced a white flag.

1.20 As set out in CIPFA's Funding Strategy Statement Guidance, we consider that the rate of employer contributions has been set at an appropriate level to ensure long term cost efficiency if it is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

1.21 In 2019 we are flagging four funds as raising potential concern in relation to long term cost efficiency; this is two fewer than in 2016.

1.22 For two funds we are concerned that employer contributions are too low, as indicated by flags on a combination of GAD's deficit period, required return and return scope measures.

1.23 For a further two funds we are concerned that employer contribution rates are 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).

1.24 During our review, we engaged with a number of funds with concerns in relation to a combination of deficit period, required return and return scope measures. We are pleased to note that, following these discussions, we were able to take into account a post valuation asset transfer in respect of one fund and allow for a firm commitment to make additional contributions in respect of a further fund. As a result, we have not raised long term cost efficiency amber flags in respect of these two funds.

1.25 In the 2016 section 13 exercise, we noted that several funds were extending their deficit recovery end points and recommended that funds reviewed their funding strategy. Whilst we note the improved funding position has reduced or removed deficits for some funds, where a deficit remains, we are pleased to observe that most funds in 2019 have maintained their deficit recovery end points.

1.26 However, this does not appear to be the case for two funds which we have flagged on this measure.

1.27 We note that different approaches have been taken by different actuarial advisors to determine deficit recovery plans. Whilst we acknowledge that different approaches may be appropriate, it is important for stakeholders to be able to assess how the deficit recovery plan changes over time. We have therefore made a recommendation to extend the information provided, and the appendices include the information to be provided.

Recommendation 2:
We recommend the Scheme Advisory Board consider 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.

Recommendation 3:
We recommend fund actuaries provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard.

1.28 Some councils have made or may be considering asset "gifts" to their pension funds. These arrangements are novel, may be complex and in some cases are established with a long time horizon. For these reasons, the governance around any such asset transfer arrangements requires careful consideration.

Recommendation 4:
We recommend the Scheme Advisory Board review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around any such transfers to achieve long term cost efficiency.

2 Introduction

What is Section 13?

The Government Actuary has been appointed by the Department for 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 in England and Wales ("LGPS" or "the scheme").

This is the second formal section 13 report and sets out the Government Actuary's findings following the fund valuations as at 31 March 2019.

Section 13 was applied for the first time to the fund valuations as at 31 March 2016, following a "dry run" which was undertaken as at 31 March 2013.

What are Local Government Pension Scheme valuations?

The LGPS is a funded scheme and periodic assessments are needed to ensure the fund has sufficient assets to meet its liabilities. Employer contribution rates may change depending on the results of valuations. Scheme regulations set out when valuations are to be carried out.

Each LGPS pension fund is required to appoint their own fund actuary, who carries out the fund's valuation. The fund actuary uses a number of assumptions to value the liabilities of the fund. Costs are split between those that relate to the past (the past service cost) and those that relate to the future (the future service cost). The results of the valuation may lead to changes in employer contribution rates for both future and past service costs.

2.1 This report is addressed to the Department for Levelling Up, Housing and Communities (DLUHC) as the responsible authority for the purposes of subsection (4) of section 13 of the Public Services Pensions Act 2013 ("the Act"). GAD has prepared this paper to set out the results of our review of the 2019 funding valuations of LGPS. This report will be of relevance to administering authorities and other employers, actuaries performing valuations for the funds within LGPS, the LGPS Scheme Advisory Board (SAB), HM Treasury (HMT) and the Chartered Institute of Public Finance & Accountancy (CIPFA) as well as other LGPS stakeholders.

2.2 As at 31 March 2019 there were 88 funds participating in the LGPS, excluding the West Midlands Integrated Transport Authority Pension Fund which merged with the West Midlands Pension Fund on 1 April 2019.

2.3 In addition to requirements under section 13 of the Public Service Pensions Act 2013 outlined above, the Scheme Advisory Board has established Key Performance Indicators. These state that "the SAB considers that maintaining and improving the overall performance of the LGPS is best done by focusing on improving key financial and governance metrics of "under-performing" funds, and concurrently seeking to raise the level of performance of "average" funds to that of the "highest performing" funds."

2.4 Subsection (4) of section 13 requires the Government Actuary as the person appointed by DLUHC to report on whether the four main aims are achieved, namely:

> Compliance: whether the fund's valuation is in accordance with the scheme regulations

> Consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within Local Government Pension Scheme England and Wales (LGPS)

> Solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund

> Long term cost efficiency: whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund

2.5 Section 13, subsection (6) states that if any of the aims of subsection (4) are not achieved

a. the report may recommend remedial steps

b. the scheme manager must—

i. take such remedial steps as the scheme manager considers appropriate, and

ii. publish details of those steps and the reasons for taking them

c. the responsible authority may—

i. require the scheme manager to report on progress in taking remedial steps

ii. direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.

Identifying if the aims of section 13 are met

2.6 We have looked at a range of metrics to identify exceptions under the solvency and long term cost efficiency objectives. Each fund is given a colour coded flag under each measure, where:

Key

RED indicates a material issue that may result in the aims of section 13 not being met. In such circumstances remedial action to ensure solvency and/or long term cost efficiency may be considered.

AMBER indicates a potential material issue that we would expect funds to be aware of. In isolation this would not usually contribute to a recommendation for remedial action in order to ensure solvency and/or long term cost efficiency.

WHITE is an advisory flag that highlights a general issue but one which does not require an action in isolation. It may have been an amber flag if we had broader concerns.

GREEN indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure solvency or long term cost efficiency.

2.7 The trigger points for these flags are based on a combination of absolute measures and measures relative to the bulk of the funds in scope at a point in time. Where appropriate we have maintained consistency with the approach adopted in 2016.

2.8 While they should not represent targets, these measures and flags help us determine whether a more detailed review is required. For example, we would have a concern where multiple measures are triggered amber for a given fund.

2.9 It should be noted that these flags are intended to highlight areas where risk may be present, or further investigation is required. For example, where an amber flag remains following engagement, we believe this relates to an area where some risk remains that administering authorities and pension boards should be aware of. There is no implication that the administering authority was previously unaware of the risk.

2.10 A green or white flag does not necessarily indicate that no risk is present and similarly the fact that we are not specifically suggesting remedial action does not mean that scheme managers should not consider actions.

2.11 We have had regard to the particular circumstances of some funds, following engagement with the administering authority and the fund actuary. In some cases, the action taken or proposed has been sufficient to remove flags. We have described these outcomes in the relevant sections below.

2.12 The figures shown in the tables in this report are based on publicly available information and/or information provided to GAD.

2.13 Further detail is provided in the solvency and long term cost efficiency chapters and appendices. In addition we have considered the overall funding position of the funds within the LGPS in our funding analysis report published alongside this document.

2.14 Local valuation outputs depend on both the administering authorities’ Funding Strategy Statements and the actuary's work on the valuation. We have reported where valuation outcomes raised concerns in relation to the aims of section 13. It is not our role to express an opinion as to whether that conclusion was driven by the actions of authorities or their actuaries, or other stakeholders.

2.15 The following key has been used to identify the actuarial advisers for each fund:

Aon
Barnett Waddingham
Hymans Robertson
Mercer

2.16 The Environment Agency Closed Pension Fund is different from other LGPS funds. The benefits payable and costs of the fund are met by Grant-in-Aid funding by the Department for Environment, Food and Rural Affairs, thus guaranteeing the security of these benefits. Details of this can be found in the Environment Agency Closed Pension Fund valuation published on the LGPS SAB website. In general, the fund has been excluded from the analyses that follow.

2.17 More generally it is important to note that this report focuses on the funding of future member benefits. The calculation of members' benefits is set out in regulations. Consequently, the benefits paid to members are not dependent on the funding position of any particular fund.

Limitations

2.18 We recognise that the use of data and models has limitations. For instance, the data that we have from valuation submissions and publicly available financial information is likely to be less detailed than that available to funds. Our risk assessment framework enables us to broadly assess scheme risks and decide on our engagement with schemes on an indicative basis.

2.19 Because of the nature of this exercise, generally only post valuation experience allowed for in the valuation disclosures has been taken into account. However, where we have engaged with funds regarding their long term cost efficiency and a firm commitment has been made to improving the fund position, this has been recognised.

Standardised basis

2.20 There are some areas of inconsistency highlighted in Chapter 5, which make meaningful comparison of valuation results set out in local valuations reports difficult.

2.21 To address this, we have referred to results restated on two bases:

- The standard basis established by the SAB, as calculated by fund actuaries
- A best estimate basis consistent with market conditions as at 31 March 2019 derived and calculated by GAD

2.22 This use of standardisation does not imply the bases are suitable to be used for funding purposes as we would expect a funding basis to be consistent with the market and prudent. We note that:

- The SAB standard basis is not consistent with current market conditions
- The GAD best estimate basis is based on our views of likely future returns on each broad asset class across the Scheme. Regulations and CIPFA guidance call for prudence to be adopted when setting a funding basis. Our best estimate basis does not include prudence and is based on the average investment strategy for the overall Scheme, so will not be pertinent to any given fund's particular investment strategy. Further, we do not take into account any anticipated changes in investment strategy that may be planned/in train

2.23 The local valuations and our calculations underlying this report are based on specific assumptions about the future. Some of our solvency measures are stress tests but these are not intended to indicate a worst case scenario.

Future review

2.24 We are grateful to stakeholders for their assistance in preparing this report. We are committed to preparing a section 13 report that makes practical recommendations to advance the aims in the legislation. We will continue to work with stakeholders to advance these aims and expect that our approach to section 13 will continue to evolve to reflect ever changing circumstances and feedback received.

Appendices

2.25 Appendices are contained in a separate document.

Other important information

2.26 The previous section 13 report was published on 27 September 2018 following the valuations as at 31 March 2016 details of which can be found in the Local Government Pension Scheme: review of the actuarial valuations of funds as at 31 March 2016.

2.27 GAD has no liability to any person or third party other than DLUHC for any act or omission taken, either in whole or in part, on the basis of this report. No decisions should be taken on the basis of this report alone without having received proper advice. GAD is not responsible for any such decisions taken.

2.28 In performing this analysis, we are grateful for helpful discussions with and cooperation from:

- Actuarial advisors
- CIPFA
- DLUHC
- Fund administrators
- HM Treasury
- LGPS Scheme Advisory Board
- The Pensions Regulator (TPR)

We note that this report is GAD's alone and the stakeholders above are not responsible for the content.

2.29 GAD would like to acknowledge the commitment shown by the funds and their advisors, which is illustrated through the improvement in the funding position of funds since the previous valuation.

2.30 We understand and assume that there is no regulatory authority assumed by or conferred on the Government Actuary in preparing this or any future section 13 report. The appointment to report under section 13 does not give the Government Actuary any statutory power to enforce actions on scheme managers (or others).

2.31 In preparing this report, we are aware that our analysis may be affected by risks arising from the impact of the COVID-19 pandemic. At this stage, the full impact of the COVID-19 pandemic is not known and will remain uncertain until further evidence has been established. No margins have been applied to the analysis to reflect these risks unless otherwise stated.

2.32 This work has been carried out in accordance with the applicable Technical Actuarial Standard: TAS 100 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

3 Progress

We made five recommendations in the 2016 section 13 report. We have reported on the progress made against each of these recommendations in the table below:

2016 Recommendation	Progress
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 DLUHC 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.	We are pleased to report that good progress has been made on this recommendation. The Scheme Advisory Board agreed standard disclosures which were included as an annex in each actuarial valuation report.
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 DLUHC minister in advance of the next valuation.	Some progress appears to have been made in this area. Fund actuaries have engaged with the Scheme Advisory Board and provided more consistent rationalisation of assumptions in funding strategy statements. However there remains some evidence of inconsistency.

2016 Recommendation	Progress
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 DLUHC minister in advance of the next valuation.	The Scheme Advisory Board established a working group in 2018, including stakeholders with a range of perspectives, and discussed a variety of options for achieving a common basis for academy conversion. However, a common basis has not yet been implemented and further discussions are necessary to determine if a common basis is achievable and if so what that should consist of.
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.	We are pleased to report good progress regarding this recommendation. Following a public consultation, the West Midlands Integrated Transport Authority Pension Fund merged with the West Midlands Pension Fund with effect from 1 April 2019. The West Midlands fund merger consultation and the Government Response on the Proposed Merger of the West Midlands Integrated Transport Authority Pension Fund and West Midlands Pension Fund can be found at gov.uk
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.	We are pleased to report there has been progress on this recommendation with most funds now maintaining their deficit recovery end points. However, our analysis shows that further improvements could be made.

4 Compliance

Key Compliance findings

- All reports checked contained a statement of compliance
- The reports checked contained confirmation of all material requirements of regulation 62
- We concluded the aims of section 13 were achieved under the heading of Compliance in terms of valuation reporting

Under section 13(4)(c) of the Act, the Government Actuary must report on whether the actuarial valuations of the funds have been completed in accordance with the scheme regulations.

In this Chapter:

- **We set out our approach to reviewing compliance and our conclusions from that review**

Summary of compliance outcomes

4.1 Valuation reports materially complied with the regulations.

4.2 There is a great deal of consistency between the actuarial methodologies and the presentation of the actuarial valuation reports for funds that are advised by the same firm of actuarial advisors (see Chapter 5 on Consistency). Accordingly, GAD has selected one fund as a representative example from each of the firms of actuarial advisors and has assessed whether these reports have been completed in accordance with Regulation 62. The statutory instrument governing the publication of actuarial valuations for the LGPS in England and Wales is Regulation 62 of the Local Government Pension Scheme Regulations 2013.

4.3 We found that the actuarial valuation reports have been completed in accordance with Regulation 62 and have therefore concluded that the compliance criteria of section 13 have been achieved. We note that this is not a legal opinion.

4.4 We did note that whilst the regulations require a reference to the assumptions on which the Rates and Adjustment Certificate (the certificate setting out employer contributions) was given, this was not always clear. It would be helpful to ensure such information is clearly stated in future. We did not consider this to be material non-compliance.

4.5 In line with the required actuarial standards we noted that the four valuation reports reviewed contained confirmation that the required Technical Actuarial Standards had been met.

4.6 Our review of compliance is focused on the actuarial valuation reports produced under Regulation 62. We have not, for example, systematically reviewed Funding Strategy Statements prepared under Regulation 58.

4.7 The comments we make in subsequent chapters on consistency, solvency and long term cost efficiency do not imply that we believe that the valuations are not compliant with the regulations. These comments relate only to whether the valuations appear to achieve the aims of section 13.

5 Consistency

Key Consistency findings

- Funds have adopted a consistent “dashboard” which greatly aids stakeholders’ understanding. We expect this information will be available as an informative resource for all users going forward and have recommended some changes to further assist users.
- We welcome the observed move towards greater consistency in relation to key assumptions. We recognise that different advisors will recommend different assumptions. However, this makes comparability difficult. Stakeholders in the LGPS would benefit from greater comparability.
- We recommend the SAB gathers further evidence on consistency from stakeholders and considers what further steps could be taken to advance this objective, particularly in relation to future academy conversions and wider emerging issues.

Section 13 requires that GAD must report on whether each actuarial valuation has been carried out in a way which is not inconsistent with other valuations. This requires both presentational and evidential consistency and is important to enable readers to make comparisons between different valuation reports.

In this Chapter we:

- **Provide some background on the legislation and importance of consistency**
- **Discuss presentational consistency with a focus on contribution rates**
- **Consider evidential consistency in more detail, looking at liability values, funding assumptions, McCloud treatment and academy conversions**
- **Comment on emerging issues and academies**
- **Conclude and make recommendations**

Presentational Consistency:

Information may be presented in different ways in different reports, and sometimes information is contained in some reports but not others (eg discount rate derived to determine future contribution rates), so readers may have some difficulties in locating the information they wish to compare. We call this presentational inconsistency.

Evidential Consistency:

When the reader has located the relevant information (eg funding levels), differences in the underlying methodology and assumptions mean that it is not possible to make a like for like comparison. We call this evidential inconsistency. We believe that local circumstances may merit different assumptions (e.g. financial assumptions are affected by the current and future planned investment strategy, different financial circumstances leading to different levels of prudence adopted) but that wherever possible information should be presented in a way that facilitates comparisons.

Importance of Consistency

5.1 LGPS is a common pension scheme locally administered by separate Administering Authorities. Section 13 requires valuations to be carried out in a way that is not inconsistent with other LGPS fund valuations. This is important to enable readers to draw comparisons between the results from two valuation reports. We also believe that there are greater benefits that could be attained by adopting a more consistent funding approach.

5.2 Where members are provided with identical benefits it is hard to justify large variations in the apparent cost of these benefits. This is particularly pronounced where one employer is participating in numerous different LGPS funds and can be required to contribute differing costs. In this situation it is increasingly important to understand what is driving the difference and ensure that this is clear to employers. The greater the difference in cost between different funds, the more significant this issue.

5.3 Furthermore, given the mobility of the workforce it is not unusual for members to transfer between funds. The greater the variation in different funding basis the greater the potential strain. In addition, in relation to bulk transfers protracted discussions on the appropriate transfer basis can result, which are not helped by differences in funding bases.

5.4 We also note that there is a common basis used for various calculations within the LGPS. Where this basis diverges from funding basis this can be a source of additional strain, which needs to be managed.

Presentational Consistency

5.5 As previously we note a high degree of similarity between reports produced by each consultancy. Therefore, we have taken at random a report produced by each actuarial advisor to assess whether the information disclosed is consistent across all four advisors. We do not have any specific concerns about these funds, which have been chosen at random and note none of the funds raise any amber or red flags. These funds are:

London Borough of Enfield Pension Fund (Aon)	London Borough of Sutton Pension Fund (Barnett Waddingham)
Derbyshire Pension Fund (Hymans Robertson)	Lancashire County Pension Fund (Mercer)

5.6 All funds completed information in the format of a standard dashboard, which was recommended as part of the 2016 section 13 exercise. The final format of the dashboard was agreed by the SAB. This includes the key information that one might expect to find in an actuarial valuation report and will be helpful to readers in comparing funding valuations.

5.7 Table B1 in Appendix B sets out the dashboard information required in the actuarial valuation reports for funds.

5.8 We note as previously each report contains a section that summarises the changes to the funding position since the 2016 reports, and these are presented in very similar ways, again making for easy comparison.

Contribution rates

5.9 Contribution rates include the following components:

> Primary Contribution Rate

> Secondary Contribution Rate

> Member Contribution Rate

5.10 The analysis below focuses on the employer contributions (the primary and secondary contributions payable by the employer). Total employer contributions expected to be received in the three years covered by the 2019 valuation are set out in the following table:

Table 5.1: Total Recommended Employer Contributions

Contribution	2020-21 £bn	2021-22 £bn	2022-23 £bn
Primary contributions	6.5	6.7	6.9
Secondary contributions	1.3	1.2	1.1
Total Employer contributions	7.7	7.9	8.1

The trend in secondary contributions may reflect some fund employers paying their secondary contributions in one lump sum to cover three years. Whilst this may be expedient for employers in the short term, and we do not object, we do encourage a focus on the longer term, and in particular budgeting over the whole deficit recovery period.

The primary contribution rates are easily found in the valuation reports for each fund, and, as they are all expressed as a percentage of pay, are easily comparable. The same is true of member contribution rates.

Secondary contribution rates are more complex. All actuarial advisors provide a detailed breakdown of the secondary contribution rates by employer for each of the next three years in their Rates and Adjustments Certificates.

Secondary Contribution Rates

5.11 Table 5.2 summarises the information about secondary contribution rates that is given in the valuation reports for the different actuarial advisors. We note that these are provided as cash amounts in each year in line with CIPFA guidance. In addition, three of the four reports also provide an alternative expression of the contributions.

Aon expressed the secondary contribution as both a fixed monetary amount and as a combination of monetary amount and a percentage of pay.

Barnett Waddingham expressed the secondary contribution as both a monetary amount and a percentage of pay.

Hymans Robertson expressed the secondary contribution as a monetary amount only

Table 5.2: Secondary Contribution Rates

Fund (Actuarial Advisor)	Secondary Contribution Rates 2020	2021	2022
London Borough of Enfield Pension Fund (Aon)	£2,099,000 or 1.3% of pensionable pay plus £8,100	£2,175,000 or 1.3% of pensionable pay plus £8,400	£2,253,000 or 1.3% of pensionable pay plus £8,700
London Borough of Sutton Pension Fund (Barnett Waddingham)	4.5% of pensionable pay or £4,879,000	4.5% of pensionable pay or £5,058,000	4.5% of pensionable pay or £5,242,000
Derbyshire Pension Fund (Hymans Robertson)	£17,432,000	£17,752,000	£18,079,000
Lancashire County Pension Fund (Mercer)	£3,200,000 or £9,300,000 less 0.6% of pensionable pay	£3,300,000 or £9,700,000 less 0.6% of pensionable pay	£3,400,000 or £10,000,000 less 0.6% of pensionable pay

Mercer expressed the secondary contribution as both a fixed monetary amount and a combination of a monetary amount and a (negative) percentage of pay.

5.12 All fund actuaries gave the equivalent monetary amount. In many cases, this is consistent with how they frame the advice to their clients. Only one fund actuary gave a single headline figure that summarises the average secondary contribution rate over the three post valuation years. In our view this is a helpful way to express those contributions, as it gives the reader a clear sense of the total employer contributions being paid in.

Table 5.3: Information provided on spreading surplus/deficit:

Fund	**Information provided on spreading deficits**
London Borough of Enfield Pension Fund (Aon)	Statement setting out spreading of deficit under 100% over maximum of 16 years and any surplus over 105% over 19 years
London Borough of Sutton Pension Fund (Barnett Waddingham)	Statement setting out spreading of deficit (maximum of 16 years)
Derbyshire Pension Fund (Hymans Robertson)	Provide recovery horizon set by employers instead of deficit recovery period. Detail provided in funding strategy statement.
Lancashire County Pension Fund (Mercer)	Statement setting out spreading of deficit and surplus including detail on funding level and maintenance of deficit recovery end point. Deficit recovery over average of 16 years

5.13 We note that whilst comparison of secondary contributions over the next three years is relatively easy, it is harder to understand what funds' objectives are to making good the deficit over the longer term. We recommend reviewing the information set out in the dashboard to consider if further data could be easily provided to address this issue. This is discussed further in the Chapter 7 on long term cost efficiency.

Comparison with prior valuation contribution rates

5.14 Regulations require contribution rates to be split into primary and secondary contribution rates for employers. This makes comparison with the previous valuation easier compared to earlier valuation cycles.

5.15 A comparison of aggregate employer rates is provided in some cases. In other cases, a comparison of primary rates only is provided, see table 5.4.

5.16 We consider it would be helpful for stakeholders to see a comparison and explanation of recommended primary and secondary contribution rates with those from the previous valuation. We also believe a comparison of the total level of contributions being paid into the fund is useful to enable the reader to make a comparison of the current and past contributions and to facilitate comparisons between funds. We suggest these additional items should be included in an updated dashboard (see Appendix B).

Table 5.4 Comparison with prior valuation contribution rates

Fund	Comparison provided
London Borough of Enfield Pension Fund (Aon)	Analysis of the change in primary contribution rates, and comparison of secondary rate and total rate (as a % of pay)
London Borough of Sutton Pension Fund (Barnett Waddingham)	Analysis of the change in primary contribution rates
Derbyshire Pension Fund (Hymans Robertson)	Comparison of primary rate (as % of pay) and secondary rate (as fixed monetary amounts)
Lancashire County Pension Fund (Mercer)	Breakdown of the primary employer contribution rate compared with the previous valuation

Evidential Consistency

5.17 We have considered whether the local fund valuations have been carried out in a way which is not inconsistent with each other. We have found that whilst inconsistencies in the methodologies and assumptions adopted remain, these are less pronounced than observed in 2016.

5.18 Primary contribution rates range between 14% and 22% in 2019. This range is a function of differences in age profile as well as different assumptions adopted. It is a slightly narrower range than that emerging following the 2016 valuations, which we take to imply an improvement in evidential consistency. The range of secondary contributions is wider reflecting different deficit/surplus levels of the individual funds.

5.19 The value assigned to liabilities in each actuarial valuation report has been calculated on assumptions set locally. Differing levels of prudence are to be expected and may be reflective of local variations in risk appetite, but care needs be taken when comparing results.

Reported liabilities

5.20 Table 5.5 shows a comparison of the local basis liability values vs liability values calculated using the SAB basis. Whilst there are also other reasons for differences between bases, this does illustrate the variation in levels of prudence adopted in each of the four valuations chosen, and therefore the difficulty in drawing conclusions based on liability values. See also charts B1 and B2 in Appendix B which compares local and SAB basis funding levels.

Table 5.5: Liability Values

Fund	Local Basis £m	SAB Standard Basis £m	Difference between Local and SAB Basis
London Borough of Enfield Pension Fund (Aon)	1,146	1,075	7%
London Borough of Sutton Pension Fund (Barnett Waddingham)	732	670	9%
Derbyshire Pension Fund (Hymans Robertson)	5,092	4,258	20%
Lancashire County Pension Fund (Mercer)	8,398	6,893	22%

5.21 The liability value on the local basis is higher than that calculated on the SAB standard basis for all funds in this sample. Across the four funds examined, the difference between the liabilities calculated on the two bases is between 7% and 22%. More widely across all funds the range is between -1% and 36%. As noted in paragraph 2.22, the SAB standard basis is not useful for assessing liabilities for funding purposes. However, this analysis illustrates the range of difference in liability values, and it is not clear the extent to which these are local differences which makes valuation reports difficult to compare directly.

5.22 The analysis above focuses on four funds chosen at random. It should not therefore be extrapolated to all funds advised by a particular advisor.

Assumptions

5.23 We compared the following key assumptions that need to be made for the actuarial valuations for all funds to consider whether variations in those assumptions are justified in terms of local conditions.

Discount Rate

5.24 The discount rate is the most significant assumption in terms of impact on the valuation results. We have therefore focused on the derivation of this assumption in this section. It is expected that different advisors will have different views on expected future investment returns, from which discount rates are derived.

5.25 The discount rate is used to value past service liabilities. A way of measuring the level of prudence included is to consider the implied asset outperformance within the discount rate (see Appendix B for more details). Note this applies to all assets, not just "return seeking" assets. The range of implied asset outperformance by actuarial advisor is set out in Chart 5.1 below.

61

Chart 5.1 Implied asset outperformance range

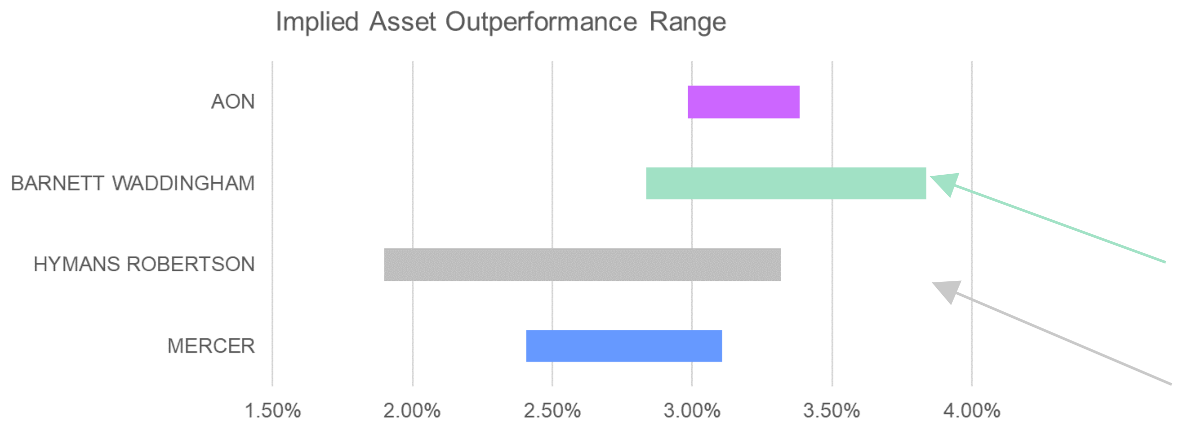


Chart 5.1 illustrates one aspect of the difference in assumptions applied by the four actuarial advisors (with the EA closed fund excluded)

Some funds advised by Barnett Waddingham have the highest level of outperformance within the discount rate used for assessing past service liability values.

Some funds advised by Hymans Robertson have the lowest level of asset outperformance within the discount rate.

5.26 Whilst there appears to be some link between the implied asset outperformance and the firm of advisors, the range of different assumptions is slightly narrower and overlap more than in 2016.

5.27 The implied asset outperformance in chart 5.1 relates to the discount rate for past service liabilities only. Whilst Aon and Barnett Waddingham adopt the same assumption for setting future contribution rates, Mercer and Hymans Robertson have different approaches.

5.28 Mercer's approach allows for the fact that contributions made after the valuation date will receive a future investment return that is not directly linked to market conditions at the valuation date. This resulted in a higher discount rate assumption for setting future contribution rates than used to value past service liabilities.

5.29 Hymans Robertson use stochastic techniques leading to a probability of success ("meeting the funding target by the funding time horizon") over a projection period (such as, for example, twenty years) to help set their contribution rates. GAD would encourage Hymans Robertson to disclose the effective discount rate used for setting future contributions, as required by CIPFA guidance in relation to Rates and Adjustment Certificates.

5.30 We would expect some fund by fund variation due to asset strategy and different levels of risk appetite, hence we do not consider the fact that funds adopt different discount rates to be a particular cause for concern. Future asset returns are highly uncertain, and hence there is a wide range of reasonable assumptions that may be adopted.

5.31 To aid comparison, we propose that the discount rate used for contribution rate setting (which may be different to the rate used for assessing past service liabilities) be disclosed in the dashboard (see Appendix B).

Other assumptions

5.32 We have compared the following assumptions used by funds advised by different actuarial advisors:

> Future mortality improvements

> Inflationary and economic salary increases

> Commutation assumptions

5.33 We expect assumptions to vary between funds. To aid transparency, this variation should be justified in relation to local circumstances. We are pleased to note improvements in some reports that reference local considerations in assumption setting. We encourage further progress in this area.

Emerging Issues

5.34 A number of issues affecting the LGPS are emerging. These issues require consideration from the funds and their advisors. We encourage dialogue with a view to treating these issues consistently in the 2022 valuation and beyond.

Climate risk

5.35 Two of the four funds reference climate change as a known risk within the valuation report as set out below. The other two funds may have considered this risk in ancillary advice but chose not to include within the valuation report.

5.36 DLUHC will be consulting on proposals for new requirements for assessing and reporting on climate risks in 2021 in line with the recommendations of the Taskforce on Climate-related Financial Risks (TCFD), and new regulations and guidance are expected to follow. Climate risk will be a focus in future section 13 reports. GAD will facilitate dialogue and engagement with DLUHC, actuarial advisors and the SAB prior to publication of the 2022 valuations to ensure a consistent approach is adopted.

Table 5.6 Reference to climate change within valuation report

Fund	Reference in valuation report
London Borough of Enfield Pension Fund (Aon)	Mentioned under other potential risks in valuation report
London Borough of Sutton Pension Fund (Barnett Waddingham)	Not mentioned in valuation report
Derbyshire Pension Fund (Hymans Robertson)	Mentioned under other risks and taken into account by administering authorities
Lancashire County Pension Fund (Mercer)	Not mentioned in valuation report

Allowance for COVID-19

5.37 As evidence emerges on the impact on mortality following the COVID-19 pandemic, we encourage dialogue to ensure a consistent approach is adopted in allowing for this.

Allowance for McCloud remedy

5.38 The government is committed to remedy age discrimination that arose when the LGPS was reformed in 2014. This is commonly referred to as McCloud remedy. At the time of the 2019 valuations there was considerable uncertainty around the possible McCloud remedy and hence cost impact. The Scheme Advisory Board advised in May 2019 that when setting employer contributions rates from 2020 it was appropriate for funds to: "consider how they approach (and reflect in their Funding Strategy Statement) the risk and potential extra costs around this matter in the same way as they would for other financial, employer and demographic risks." We note that all advisors have included an allowance for McCloud but the approach adopted varies. Table 5.7 show the treatment in each of the four funds chosen:

Table 5.7: McCloud treatment

Fund	McCloud treatment
London Borough of Enfield Pension Fund (Aon)	Converted calculated past service cost into a % of pay over the maximum recovery period plus a further addition to primary contribution rates
London Borough of Sutton Pension Fund (Barnett Waddingham)	McCloud allowed for in the derivation of the discount rate
Derbyshire Pension Fund (Hymans Robertson)	McCloud allowed for as additional prudence in setting employer contribution rates.
Lancashire County Pension Fund (Mercer)	Additional margin of prudence included in the discount rate to determine employer contribution rates.

5.39 There has been communication between actuarial advisors during the 2019 valuation when considering the allowance to be made for McCloud. Given that there is now greater certainty around the McCloud remedy we would expect a consistent and explicit calculation approach to be adopted at the next valuation.

65

Academies

5.40 A recommendation was made in the 2016 report that the Scheme Advisory Board should seek a common basis for future conversions to academy status, with a view to making a recommendation to the DLUHC Minister in advance of the next valuation.

5.41 Although the different treatments are not invalid, inconsistent treatment when academies are admitted can lead to differences in valuation outcomes. For this reason, it is an important element of section 13.

5.42 Whilst we are aware that initial discussions were held and an academies funding working group was established in early 2018, to consider amongst other things a common approach to assess the costs associated with academy conversion, a common basis has not yet been agreed and implemented.

5.43 We have limited data to consider the basis on which academy conversions have occurred. However, we have liaised with the actuarial advisors to request their input as summarised below:

Table 5.8: Advisors comments on whether a move to greater consistency has occurred

Actuarial advisor	Response to question "has there been a move to greater consistency for academy conversions?"
Aon	Aon confirmed that a move to greater consistency across all LGPS funds had not been observed, although improved funding levels may have resulted in more similarity in practice between different approaches. They also noted that consistency within a fund over time is important.
Barnett Waddingham	Barnett Waddingham confirmed that they have consistently adopted an active cover approach.
Hymans Robertson	Hyman Robertson commented "We are not aware of any significant change in approach by funds for the reason of ensuring consistent treatment of academy conversions with other funds. The approach used by each fund was, generally, formed in 2010/2011 when academy conversion first occurred. In the absence of any guidance from the Department of Education or DLUHC (DCLG at the time) about the pensions treatment of these new academies, the approach adopted by each fund was one that was in line with their approach to funding other employers in the fund and reflected what they thought fair to all stakeholders involved – the new academy, the

Actuarial advisor	Response to question "has there been a move to greater consistency for academy conversions?"
	ceding LEA and all other employers in the Fund. By the time the 2016 Section 13 report was published in Autumn 2018, there had been 8 years of academy conversions and as such there was little desire by funds to revisit their approach. Especially as they may have created a two-tier academy funding regime in the fund, and it is unlikely that one funds approach will provide the best funding outcome for another fund."
Mercer	Mercer confirmed that consistency applies to their Funds as they have generally applied the same principles i.e. that the contribution pre/post conversion is the same other than profile differences. Some Funds adopt variations on this but on a consistent basis. For Multiple Academy Trusts new academies will generally pay the pooled Multiple Academy Trust rate.

5.44 It appears that despite work by both the SAB and the actuarial firms, limited progress has been made to move towards a more consistent funding approach for academies. It would seem appropriate for the SAB to review whether the advantages of convergence should reignite this debate with the aim of taking more definitive steps towards a future convergence.

Table 5.9: Advisors comments on whether a move to greater consistency is likely to occur

Actuarial advisor	Response to question do you anticipate a more or less consistent approach being adopted in the future
Aon	Aon commented that a change in approach to make all funds more consistent would be difficult without a compelling reason such as legislation or SAB guidance. In respect of pooling of academies, they noted that there are arguments for pooling notwithstanding the inherent cross subsidies, but that academies aren't as homogenous a group as initially anticipated.
Barnett Waddingham	Barnett Waddingham commented that the same approach would be adopted for funds advised by Barnett Waddingham in future.
Hymans Robertson	Hyman Robertson commented: "As noted in the previous question [on whether there has been a move to greater consistency or not], academies have now participated in LGPS funds for over a decade and the approach used to allocate a starting funding position has likely been settled and consistent within each fund for a long period of time. Therefore, unless there was a significant change in the nature of academies as an employer, removal of the DfE guarantee or a particular approach mandated

Actuarial advisor	Response to question do you anticipate a more or less consistent approach being adopted in the future
	via regulation (which would also need to consider how historic conversions are managed), we would not anticipate any future change in the approach around academy conversion.”
Mercer	Mercer commented that the consistency will remain the same until an approach is either mandated or further guidance is provided e.g. via the SAB

Recommendation 1:
The Scheme Advisory Board should consider the impact of inconsistency on the funds, participating employers and other 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.

Conclusion

Improvements since 2016

We were pleased to note that generally there appeared to have been a move towards more consistent assumptions.

Previously we set out a possible dashboard to facilitate the Scheme Advisory Board's consultation with stakeholders and are pleased to note that all funds have included such a dashboard within their valuation reports. This has helped significantly in understanding the funds' approach. However, some items remain unclear and we think it would be helpful for stakeholders to be presented with clear information. We are working with the SAB to see how this can be achieved.

Objectives for improving consistency

We remain convinced of the advantages of achieving greater consistency. We therefore recommend engagement between the SAB and stakeholders to gain a better understanding of the issues and how steps towards greater consistency could be taken forward.

We encourage dialogue to aid consistency of approach between advisory firms, particularly for emerging issues of climate risk, COVID-19 and McCloud.

Examples of where the criterion may not have been achieved include:

- Opportunities to improve consistency in reporting of whole of fund secondary contribution rates
- Academy conversions

These differences contribute, alongside genuine local variations, to differences between funding levels and recommended contribution rates on local bases which a reader may find it difficult to interpret without undertaking further analysis.

69

6 Solvency

Key solvency findings

- Funding levels have improved on local bases since 2016, primarily due to asset outperformance. This asset performance means that on average the funds of the LGPS are nearly 100% funded on their local funding bases.
- Growth of funds' assets and liabilities has been faster than growth in the size of the underlying local authorities (as measured by Core Spending Power and Financing data). This means that those funds that are in deficit are more likely to trigger our asset shock measure. Where this is the only concern raised we have considered this a white flag and we have focused on the greater risk that is implied by this across a range of funds in the LGPS, rather than engaging with specific funds affected.
- No other solvency flags have been raised due to the improvements in funding position.
- There is a general risk that funds are growing relative to the size of the local authority employers, so this volatility can have a more profound effect.

Under section 13(4)(c) of the Act, the Government Actuary must report on whether the rate of employer contributions to the pension fund is set at an appropriate level to ensure the solvency of the pension fund.

In this Chapter:

- We provide a definition of solvency
- We provide some background on solvency issues, and some of the measures and flags we have used in considering them

Definition of solvency

In line with the definition in CIPFA's Funding Strategy Statement Guidance, which we adopt for the purposes of section 13, we consider that the rate of employer contributions has been set at an appropriate level, to ensure the solvency of the pension fund, if

- **the rate of employer contributions is set to target a funding level for the whole fund (assets divided by liabilities) of 100% over an appropriate time period and using appropriate actuarial assumptions**

and either:

- **employers collectively have the financial capacity to increase employer contributions, and/or the fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%**

or

- **there is an appropriate plan in place should there be, or there is expected in future to be, no or a limited number of fund employers and/or a material reduction in the capacity of fund employers to increase contributions as might be needed**

Summary of solvency Outcomes

6.1 Following the 2019 valuations 62 funds (71%) were in surplus on our best estimate basis, with the aggregate best estimate funding level being 109%. This compares to the position in 2016, where around 60 funds were in surplus with an aggregate funding level of 106%. GAD's best estimate basis is the set of assumptions derived by GAD without allowance for prudence, hence with a 50:50 likelihood of the actual experience being higher or lower than the assumption being adopted, in our opinion. Where the funding level on such a basis is higher than 100% we expect there is a greater than 50% likelihood that existing assets would be sufficient to cover benefits in respect of accrued service when they fall due.

6.2 There is a range of funding levels on this basis from 76% to 145% (excluding the Environment Agency Closed fund, as benefits payable and costs of the fund are met by Grant-in-Aid funding by DEFRA). The solvency definition above means those funds that are relatively poorly funded are not considered insolvent, but they do need to be taking adequate action to resolve that deficit (which is the subject of long term cost efficiency).

6.3 Although funding levels have improved across the board, GAD's view is that the outlook for prevailing economic conditions has deteriorated as at 2019 compared to 2016. Many funds have reduced their contribution rates as a result of the improvement of their funding position. In our opinion, for some funds, the deterioration in outlook may have warranted a strengthening of valuation bases, resulting in a requirement to maintain or increase contributions.

6.4 The period from 2016-19 saw strong equity returns of around 10-12% per annum, leading to high Price/Earnings ratios. Hence GAD's view is that markets were highly valued at 31 March 2019, and so we might expect to see lower future returns. A fall in gilt and bond yields over a similar period supports GAD's view of downward pressure on expected returns.

6.5 Based on Scheme funding analysis annexure produced by TPR the real discount rates of private pension schemes valued between September 2018 and September 2019 (i.e. including 31 March 2019) were around 1% lower than those used between September 2015 and September 2016 (i.e. including 31 March 2016). This coincides with a decrease in the return seeking assets held by schemes. TPR reporting indicates this is at least partly explained by the ongoing shift towards a lower proportion of return seeking assets in those schemes between 2016 and 2019. Whilst a reduction in the real discount rate was observed between 2016 and 2019 in the LGPS this was significantly smaller on average. The proportion of return seeking assets held by LGPS funds has not changed significantly over this period. Our Funding Analysis report contains further information.

SAB Funding Level

6.6 Five funds have a "white" flag in relation to their SAB funding level as these are the poorest funded on the SAB basis, with the distance from the mean SAB funding shown below:

Fund	SAB Funding Level Distance below mean
Bedfordshire Pension Fund (Barnett Waddingham)	**19%**
London Borough of Waltham Forest Pension Fund (Mercer)	**21%**
London Borough of Havering Pension Fund (Hymans Robertson)	**22%**
London Borough of Brent Pension Fund (Hymans Robertson)	**27%**
Royal County of Berkshire Pension Fund (Barnett Waddingham)	**31%**

6.7 We note that this is a purely relative measure and we did not engage with those funds that flag on this measure only. We would consider this a "white" flag. However, we encourage funds to review their long term budgeting process to allow appropriately for additional expected contributions to eliminate the deficit and to help to demonstrate solvency.

Asset Shock

6.8 This is a stress test. It considers what may happen if there is a sustained reduction in the value of return seeking assets of tax raising employers (those employers whose income is covered by core spending and financing data). For example, a market correction in which asset values do not immediately recover and losses are not absorbed by changes in assumptions.

6.9 We model the additional contributions that would be required by tax raising employers to meet the emerging deficit. This is different to considering the total contributions required following the shock – i.e. we are looking at where there is a risk of large changes to the contribution rate, rather than a risk of the total contribution rate exceeding some threshold.

6.10 Funds with a high level of return seeking assets are more exposed to asset shocks and more likely to trigger this flag.

6.11 More funds flag on the asset shock measure in 2019 than in 2016.

6.12 Funds have grown considerably, measured by the value of either their assets or liabilities, over the three years to 31 March 2019. The size of the employers, and particularly that of the relevant local authorities, as measured by their core spending power and financing data, has not grown at anything like the same pace. (Core spending power and financing data is used as a measure of the financial resource of the underlying tax raising employers, as detailed in Appendix C).

6.13 We have considered this situation carefully and concluded that it would be difficult for funds to take specific action in response to individual fund flags which have been primarily driven by the increase in the size of funds relative to the possible contributions available. Therefore we are noting these concerns as a "white" for information only flag in Appendix C. This is an advisory flag that highlights a general concern but one which may require monitoring rather than action.

6.14 A key message is that this reflects the increased risk to the whole of the LGPS. If a shock were to occur, that shock would be more significant than before, since the fund has grown relative to the size of the local authority. Therefore, the ability of the employer to meet the increased contributions that could result will be diminished.

6.15 We have included a list of the funds with a white flag in Appendix C.

6.16 The potential for future variation in contribution rate is discussed further in our Asset Liability Modelling (ALM) section below. The ALM primarily focuses on potential variability of future employer contribution rates. We encourage actuarial advisors to provide commentary in relation to this risk in their valuation reports, both in general, and in relation to emerging risks such as climate change.

Asset Liability Modelling (ALM)

Introduction

6.17 An Asset Liability Model ('ALM') allows us to simultaneously project the assets and liabilities of the scheme under a range of simulations to investigate possible outcomes for key variables and metrics. Modelling the scheme in this way allows us to understand not only central, expected outcomes but also the wider range of possible outcomes and associated probabilities. It also demonstrates the importance of considering the assets and liabilities together to understand how particular risks and relationships might manifest in simultaneous movements in both sides of the balance sheet.

6.18 The ALM exercise was undertaken to illustrate:

> Uncertainty of future employer contributions

> Impact on scheme funding levels if there are constraints on employers' and local authorities' pension contributions

> Scheme risks and possible risk management

6.19 The contribution and funding analyses in the ALM section are for illustrative purposes and are based on a set of assumptions and methodology set by GAD. It should be noted that this type of analysis is particularly dependent on the assumptions and methodology adopted. Other models could produce different outcomes.

6.20 The ALM charts in this report include an allowance for the reduction in the asset value following the onset of the COVID-19 pandemic in the 2019/20 scheme year but no allowance has been made for the rebound of assets that is expected to have occurred in the LGPS for 2020/21. GAD currently hold no information on the extent of recovery by funds, however we have included charts in Appendix E which illustrate the impact of setting the funding level to 100% at 2021 for all scenarios.

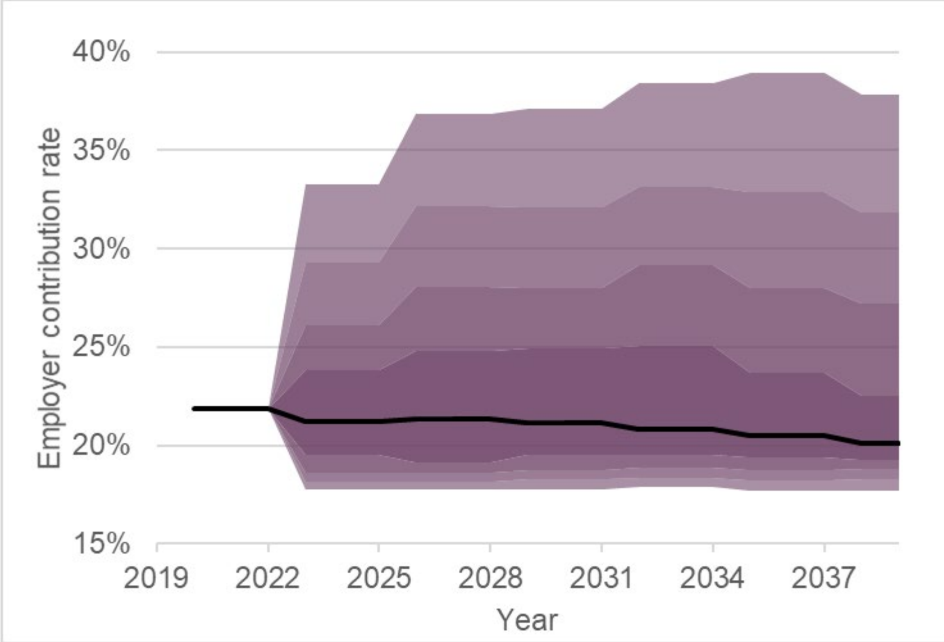
6.21 The methodology used for the ALM is set out in Appendix E.

Volatility of contributions

6.22 Variability of asset returns and changes in economic outlook may place significant pressures on the future rate of employer contributions.

6.23 Chart 6.1 Illustrates the range of total employer contributions (primary and secondary rates) projected over future valuations. This output is driven by the assumption that the impact of changes in asset values and/or the economic outlook will feed through directly to contribution setting.

Chart 6.1 – Illustrations of total employer contributions



6.24 In chart 6.1, the thick black line represents the median of the range of contribution rates simulated at each future valuation. Each shade of purple represents the range of funding levels for a decile (10%) of scenarios, with the subsequent lighter shade representing the next decile. We have not shown the most extreme deciles (0-10% and 90-100%)

6.25 Chart 6.1 illustrates that LGPS employers could be subject to significant pressures as there is around a 25% likelihood that the employer contributions could exceed 30% from 2031.

6.26 In our modelling, there is limited likelihood of significant reduction in contributions due to our assumptions that no reduction is applied when the LGPS is in surplus.

6.27 In practice these pressures may not follow through directly into changes in employer contribution rates. For example, if there was a downward (or upward) cost pressure then the following adjustments might be considered:

- the asset strategy might be considered and refined (for example switching to something more defensive or return seeking) which would be expected to alter the future volatility and expected future return
- the length of the recovery period might be considered and adjusted
- the level of prudence might be considered and adjusted, which could alter the chance that future experience was better/worse than assumed

However, such short-term adjustments may not be indefinitely repeatable in practice.

6.28 The output of our model should not therefore be regarded as a prediction of changes in future employer contribution rates, but rather an illustration of the potential pressures on the employer contribution rate that might need to be managed in some way. Any changes to manage down employer contribution rates in the short term do not alter the long term cost of the scheme (which depends on the level of scheme benefits and scheme experience, including asset returns) and more generally might have some other less desirable outcomes, for example:

- increasing the length of recovery periods transfers costs onto future generations of taxpayers
- choosing a more return seeking asset strategy would be expected to increase volatility and risk

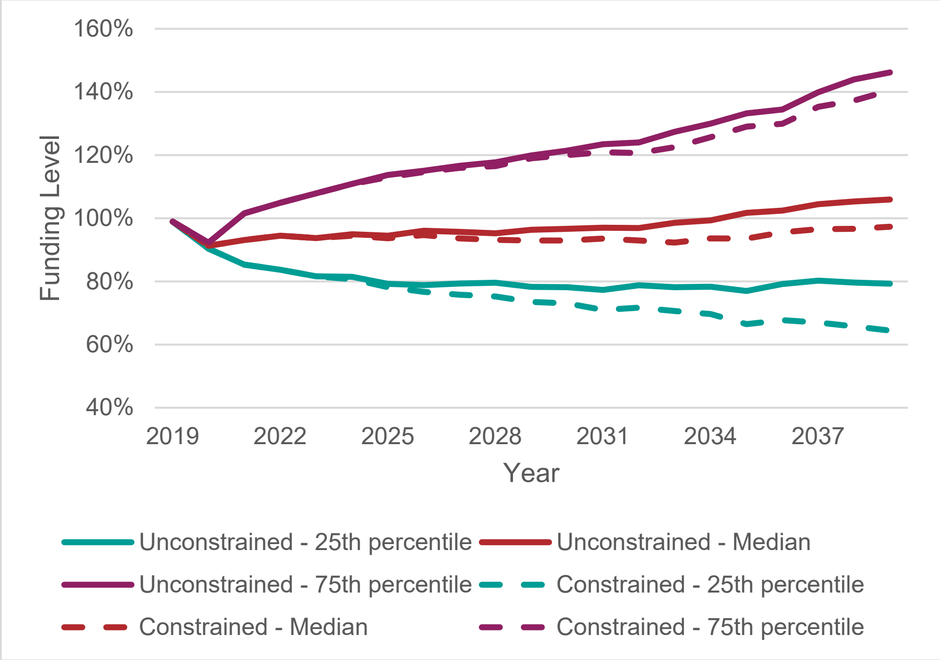
Funding of benefits at future valuations

6.29 The level of future funding available to local authorities is unknown. However if recent trends were to continue, there may be some constraints on the funding available to local authorities.

6.30 The funding strategies set by LGPS funds often seek to maintain stability of contributions, and the LGPS regulations require the actuary to have regard to the desirability of maintaining as nearly a constant primary rate of employer contributions as possible. The range of employer contribution rates that emerge at future valuations may be narrower than shown in chart 6.1 above because of this stability. Stability helps to avoid frequent upward and downward changes in employer contribution as a result of short-term volatility. However, there is significant variability in long term asset returns and adverse experience at a valuation might not be a short term 'blip', but the start of a long-term trend. If employer contributions do not change to reflect adverse experience in these circumstances, then there is a risk that funding levels fall in the medium-long term.

6.31 The two points raised above illustrate scenarios where employer contributions may be constrained and chart 6.2 illustrates the consequential impact that constraints on contributions could have on the projected funding levels.

Chart 6.2 – Illustration of the impact constrained contributions could have on funding levels



6.32 Chart 6.2 shows the median value (red) and the upper (purple, 75th) and lower (green, 25th) quartiles for the projected funding level. The thick lines represent unconstrained contributions and the broken lines are where employer contributions are constrained. Note that none of the lines shown on this chart represent any simulated scenario – instead they are intended to represent the distribution of possible outcomes and how the range of simulated scenarios changes over the projection period.

6.33 The constraint being applied is that average employer contribution rates do not exceed 22% of pensionable pay at any time (this is based on the average 2019 valuation contribution rate).

6.34 Chart 6.2 illustrates the downside risk that the LGPS may be subject to. There is just over a 25% chance of the funding level being below 65% by the end of the projection period, whereas for the unconstrained scenario there is a 25% likelihood of the funding level being below 80%.

6.35 This analysis is an illustration of how constraints on contribution rate may affect the LGPS, with similar points flagged in the discussion on asset shock – see paragraphs 6.8 – 6.16 and risk comment below.

Scheme risk

6.36 The ALM study is based on a projection of the fund in aggregate. In practice, the 88 funds each have their own individual circumstances and are starting from unique positions which alters the risk. To demonstrate this at a high level, we have considered sensitivity analysis which varies the initial funding level at the 2019 valuation as follows:

(a) Funding level is set to 75%, which is around the lowest funding level of the funds on GAD's best estimate basis at 2019

(b) Funding level is set to 100% at 2019

(c) Funding level is set to 145%, which is the highest funding level of the LGPS funds on GAD's best estimate basis at 2019

6.37 For these scenarios we have not allowed for a rebound of asset values in 2020/21 and have assumed contributions are constrained.

6.38 The table below illustrates the likelihood of achieving certain funding levels at 2037:

Table 6.1 – Illustrations of funding sensitivities

Scenario	Likelihood of being at most 75% funded at 2037	Likelihood of being at least 100% funded at 2037	Likelihood of being at least 145% funded at 2037
75% at 2019 valuation	50%	25%	10%
100% at 2019 valuation	30%	50%	20%
145% at 2019 valuation	10%	75%	50%

6.39 Table 6.1 illustrates the potential risks to well-funded funds, as continued well-funded status is not guaranteed. So even funds that are well-funded need to consider how best to manage downside risks.

6.40 Conversely a relatively poorly funded fund could recover, through a combination of employer contributions and strong investment returns.

General risk comment

Local authorities have finite resources and in recent years the size of pension funds has increased considerably more than their budgets. Given that pension funding levels change it is not unlikely that a period of increased pension contributions will be required in the future.

If additional spending is required for pension contributions this may lead to a strain on local authority budgets.

We would expect that administering authorities are aware of this risk in relation to solvency and would monitor this over time. Administering authorities may wish to discuss the potential volatility of future contributions with employers in relation to overall affordability.

Management of Risks

6.41 The ALM section above highlights some of the key risks that the LGPS may be exposed to over future valuations. It illustrates some of the risks which funds should consider when making investment decisions:

- Investment risk, primarily equity returns
- Volatility of contributions

6.42 GAD does not comment on the investment strategy that LGPS funds should adopt or the types of investments which the LGPS funds should invest in. Nevertheless, when choosing an investment strategy we would expect funds to consider the ongoing cost of the benefits and their capacity to increase contributions if required.

7 Long term cost efficiency

Key long term cost efficiency findings

- In 2019 we are flagging four funds in relation to long term cost efficiency. This is two fewer than in 2016
- For two funds we are concerned that employer contributions are too low, as indicated by flags on a combination of GAD's deficit period, required return and return scope measures
- For a further two funds we are concerned that employer contribution rates are 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)
- We recommend all funds review their funding strategy statements to ensure handling of surplus/deficit is fair to both current and future taxpayers
- We are pleased to report an improvement in funds maintaining their deficit recovery plans; however, we are concerned about the lack of transparency of some funds around their deficit recovery period

- **Some funds have entered into long term arrangements with their sponsoring councils to receive future assets in return for reducing deficit contributions that would otherwise be expected to be paid into the fund. These can be complex arrangements. Careful consideration is required to ensure they fully comply with all regulations and are consistent with long term cost efficiency. We suggest that the SAB examine such arrangements to check appropriate governance is in place to ensure long term cost efficiency**

Under section 13(4)(c) of the Act, the Government Actuary must report on whether the rate of employer contributions to the pension fund is set at an appropriate level to ensure the long term cost efficiency of the scheme, so far as relating to the pension fund.

In this Chapter:

- **We provide a definition of long term cost efficiency**
- **We provide some background on long term cost efficiency issues, and the measures and flags we have used in considering them**
- **We set out flagged long term cost efficiency issues: deficit reconciliation and deficit recovery period**
- **We set out specific concerns and recommendations in respect of two types of asset transfer arrangements**

Definition of long term cost efficiency

In line with the definition in CIPFA's Funding Strategy Statement Guidance, which we adopt for the purposes of section 13, we consider that the rate of employer contributions has been set at an appropriate level to ensure long term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

Summary of long term cost efficiency outcomes

7.1 Long term cost efficiency (LTCE) relates to not deferring payments too far into the future so that they affect future generations of taxpayers disproportionately.

7.2 In total, four funds are flagged under LTCE in the 2019 review. This compares with six funds flagged in 2016.

7.3 For two funds we are concerned that employer contributions are too low, as indicated by flags on a combination of GAD's deficit period, required return and return scope measures. Where the deficit period is the implied deficit recovery period and the required return considers the investment return rates required to achieve full funding in 20 years' time (both calculated on GAD's best estimate basis). Return scope considers how the required investment return compares to the fund's expected best estimate future return assuming the current asset split (these are defined in Appendix D in more detail). In Table 7.1 below we set out these measures for:

> Royal County of Berkshire Pension Fund

> City of London Corporation Pension Fund

Table 7.1 – Funds with amber flag on deficit period, required return and return scope measures with rankings out of 87 funds (excluding the Environment Agency closed fund)

Pension fund	Deficit period (rank)	Required return (rank)	Return scope (rank)
City of London Corporation Pension Fund	15 years (86)	4.1% (84)	0.3% (76)
Royal County of Berkshire Pension Fund	25 years (87)	4.6% (87)	0.1% (84)

7.4 For a further two funds, Redbridge Pension Fund and Barking and Dagenham Pension Fund, we are concerned that employer contribution rates are decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery end point is being extended further into the future (increasing the burden on future taxpayers). This led to these two funds raising a flag in relation to their deficit recovery period.

7.5 We also engaged with Islington Council Pension Fund and Devon County Council Pension Fund. Prior to engagement, these funds raised initial amber flags and we were concerned that employer contributions were set too low. We were able to remove the amber flags following our engagement and their commitments to make additional contributions prior to 2023.

7.6 We engaged with a number of funds for which we did not raise a combination of flags. This was as a courtesy to explain that they were close to being flagged and may want to take action as part of the 2022 valuation to reduce the likelihood of being flagged then. These funds are listed in Appendix D as "light engagements".

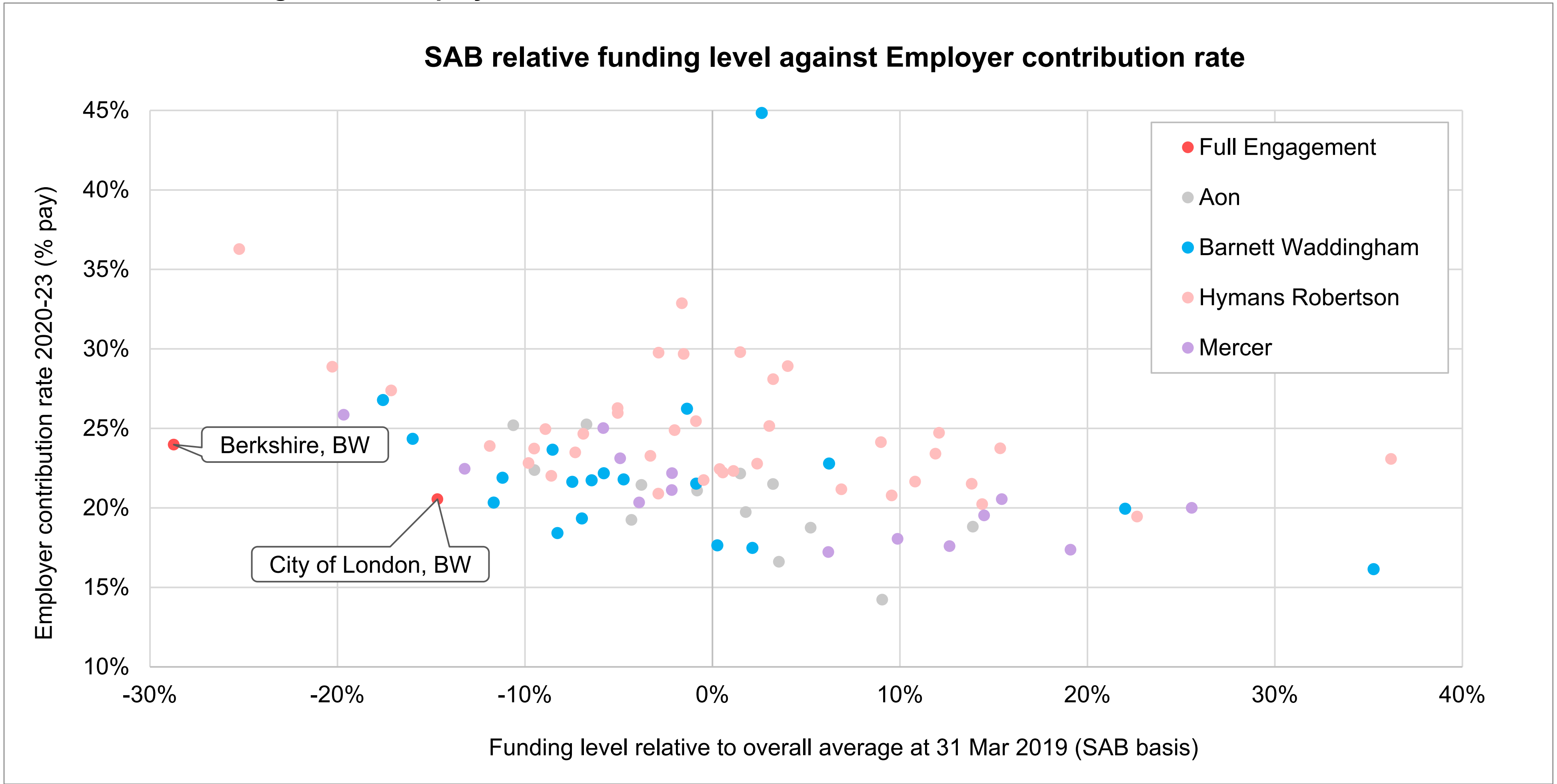
7.7 Some funds also raised flags against some LTCE measures, but on closer review most were not considered to be sufficiently wide outliers to warrant further investigation or engagement.

7.8 Chart 7.1 plots the funding level relative to the average (normalised to the SAB basis) against employer total contributions (expressed as a percentage of pensionable earnings). Those funds on the bottom left of the chart are therefore those receiving lower total employer contributions compared to other funds and which are relatively weakly funded on a standardised basis. The two funds discussed in 7.3 above appear furthest to the lower left and also flag on a number of relative LTCE measures. This combination of flags led us to raise further concerns and engage with those funds.

83

Deficit Period, Required Return and Return Scope

Chart 7.1 SAB funding level vs Employer contribution rate



Royal County of Berkshire Pension Fund

7.9 The Royal County of Berkshire Pension Fund is one of the least well funded on the local basis, with a funding level of 78%. It is the worst funded on the common SAB basis (excluding Environment Agency Closed fund). The funding level is higher, and therefore less prudent, than GAD's best estimate basis.

7.10 Proposed total contributions are 24.0% of pensionable pay (increased from 21.2% in 2016). This is partly an increase in primary rates (up 0.9% to 15.4%). However, under a worse economic outlook and relative to contributions being paid into other funds, we consider this to be lower than necessary to ensure long term cost efficiency.

7.11 The Royal County of Berkshire Pension Fund raised an amber flag in relation to some long term cost efficiency measures: deficit recovery period (25 years on GAD's best estimate basis), required return (where it ranks lowest at 87 of 87) and return scope.

7.12 Chart 7.1 shows that the Royal County of Berkshire Pension Fund is ranked lowest on funding level, and its contribution levels are not correspondingly high. Around 25 funds are receiving greater contributions.

7.13 The Royal County of Berkshire Pension Fund has retained its deficit recovery end point, although this was relatively long at 2040 in 2016.

7.14 Following engagement with the Royal County of Berkshire Pension Fund, we were advised that employers participating in The Royal County of Berkshire Pension Fund have been for the last few years increasing their contributions by 1% per year to reduce the deficit over the longer term. We were reassured by this long-term commitment.

7.15 The officers we engaged with appreciated that additional funding would be required over a long timeframe and reaffirmed their commitment to do so. They noted that there were strong constraints on affordability at this point in time.

7.16 They have also reviewed their governance processes, with recommendations currently being implemented and additional permanent staff being recruited to facilitate this.

7.17 They advised that in particular they are engaging with the Local Pension Partnership investment pool to tailor their strategic asset allocation specifically to the circumstances of the Royal County of Berkshire Pension Fund.

City of London Corporation Pension Fund

7.18 The City of London Corporation Pension Fund is funded at 90% on the local basis and just over 90% on SAB and best estimate bases. Overall the total employer contributions being paid into the fund have decreased since 2016 to 20.5% (down 0.2%; the primary rate has increased by 2.2% to 15.0% but secondary rates have fallen by 2.4% to 5.5%). We note that this is a feature of the mix of employers and that individual total employer's contributions have not generally decreased.

7.19 The City of London Corporation Pension Fund has retained its deficit recovery end point, at 2033. This has been the target since the 2013 valuation.

7.20 The City of London Corporation Pension Fund raises amber flags in relation to recovery period (15 years on GAD's best estimate basis) and return scope. It ranks 84 of 87 on required return (also an amber flag).

7.21 Chart 7.1 shows that the City of London Corporation Pension Fund ranks 8th lowest on funding level but this is not reflected in its contribution level. Around 61 funds are receiving greater contributions.

7.22 Following engagement with the City of London Corporation Pension Fund we were advised that employers have been adhering to their plan to remove the deficit by 2033. We were reassured by this long-term commitment.

7.23 The officers we engaged with referred to some reassignment of priorities and impacts on their funding as a result of COVID-19 but stressed that overall finances are robust and adequate to maintain this strategy.

Engagement with funds where flags subsequently removed

7.24 Islington Council Pension Fund is funded at 85% on the local basis and just over 90% on SAB and best estimate bases. On average across the three years, overall contributions have remained unchanged since 2016 at 20.0% of pensionable pay (primary rate has increased by 2.2% to 16.9% but average secondary rates have fallen by 2.2%, from 5.3% to 3.1%).

7.25 Islington Council Pension Fund has retained its deficit recovery end point, at 2038.

7.26 Prior to engagement, Islington Council Pension Fund would have raised an amber flag on deficit recovery period (17 years on GAD's best estimate basis) and return scope. It would have ranked 86 of 87 on required return (also an amber flag).

7.27 We engaged with relevant officers of Islington Council Pension Fund. They confirmed that they were committed to improving the funding level and there was already an agreement in place to a phased increase in contributions after the 2022 and 2025 valuations. Further there had been initial discussions on whether secondary contributions could be paid earlier. Following the engagement with GAD, Islington Council provided a firm commitment to paying in an additional contribution to the fund prior to 2023. If secondary contributions after 2023 are maintained this is sufficient to remove all amber flags for Islington Council Pension Fund.

7.28 We are pleased to confirm therefore that no amber flags apply to Islington Council Pension Fund in this report.

7.29 Devon County Council Pension Fund is funded at between 90% and 95% on local, SAB and best estimate bases. Overall contributions have decreased since 2016 to 20.3% of pensionable pay (down 0.6%). The primary rate has increased by 2.1% to 16.9% but secondary rates have fallen by 3.1% to 3.4%.

7.30 Devon County Council Pension Fund has retained its deficit recovery end point, although this was relatively long at 2040.

7.31 Based on the data provided, and prior to our engagement Devon County Council Pension Fund raised amber flags on deficit recovery period (19 years on GAD's best estimate basis) and return scope. It ranked 87 of 87 on required return (also an amber flag).

7.32 Following engagement with Devon County Council Pension Fund we established that an asset transfer had been made in October 2019. This increased in total fund assets by £72 million. As a post-valuation event this had not been considered in our initial calculations and was not reflected in the data received.

7.33 In our engagement meetings we agreed that it is appropriate to allow for this one-off increase in asset value and this was sufficient to remove the amber flags on deficit recovery period and return scope.

Deficit Reconciliation

7.34 Where a fund is in deficit administering authorities should avoid continually extending the deficit recovery period end point at each and subsequent actuarial valuations as this will not meet the LTCE requirements. Over time and given stable and better than expected market conditions, administering authorities should aim to, where possible and appropriate:

- Maintain the levels of contributions and/or
- Reduce deficit recovery periods by maintaining the end point of the recovery period

7.35 We believe it is appropriate for funds to consider their plans for the duration of the deficit recovery period, so that future contributions are recognised and these form part of employers' budgeting process.

7.36 We would not normally expect to see employer contribution rates decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery end point is being extended further into the future (increasing the burden on future taxpayers). This expectation considers the desire for intergenerational fairness which is required for LTCE.

7.37 We appreciate there may be limited circumstances where new deficit may emerge between valuations, as a result of the fund's experience, where it may be appropriate to extend the recovery period. For example, if a fund within the last three years of its deficit recovery period experienced a material reduction in its funding level, it may not be appropriate in the context of fairness between current and future generations of taxpayers to repay that new deficit within three years.

7.38 We consider that reconciliation of the deficit recovery plan is an essential component for all funds to demonstrate they meet LTCE requirements.

7.39 We note that most funds have now maintained their deficit recovery end points in accordance with our recommendation 5 from our 2016 section 13 report.

7.40 Hymans Robertson use stochastic techniques leading to a probability of success ("meeting the funding target by the funding time horizon") over a projection period (such as, for example, twenty years) to help set their contribution rates. This makes reconciliation as outlined in 7.38 difficult. It would be helpful if Hymans Robertson could also illustrate what the deficit recovery period would be based on for the proposed contribution pattern.

7.41 To ensure that we can compare future recovery plans; we propose that the following additional information is added to the dashboard for each fund (see Appendix B).

- Three year average of total expected employer contributions, expressed as a percentage of pensionable pay

And, for funds in deficit only where deficit recovery period is defined:

- Deficit end point at current valuation and prior valuation (weighted average for all employers in deficit)

Where a deficit recovery period is not defined:

- success probability at the end point of the prior funding time horizon (current and prior valuation)

7.42 Where funds are in surplus, we are comfortable that there is more flexibility on whether to extend the end point over which surpluses are spread.

7.43 We engaged with two funds that were flagged on this measure:

- Redbridge Pension Fund, which reduced contributions, had a success probability (i.e. the probability of being fully funded on the local valuation basis) at 2033 of 55%, compared with 64% in the 2016 projection. Redbridge Pension Fund therefore raises a flag for deficit reconciliation

- Barking and Dagenham Pension Fund had a 67% probability of success at 2033. However, because it has moved to a different advisor, Hymans Robertson were not able to provide the success probability at the previous valuation or any other information for us to assess whether this meets LTCE requirements. Barking and Dagenham Pension Fund therefore raises a flag for deficit reconciliation

7.44 We note that both funds use a 17 rather than 20 year projection period, which itself is shorter (hence more prudent) than that used for a number of other funds.

Recommendation 2:
We recommend the Scheme Advisory Board 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.

Recommendation 3:
We recommend fund actuaries provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard.

Asset transfer arrangements

7.45 A number of councils have or may be considering an asset "gift" to their pension funds. We are aware of two general types of arrangement as follows:

> "Asset transfers" where council assets are transferred to an investment company, with the cash subsequently used to pay down part or all of the council's pension fund deficit

> "Contingent property transfer" where councils establish a special purpose vehicle in which a portfolio of social housing owned by the council is managed often for a long period of time (eg 40 years). The assets are not immediately transferred to the pension fund but at the end of the agreed management period, the property portfolio is gifted to the pension fund, on the expectation that the underlying properties will generate revenues and/or sales proceeds that will reduce or eliminate any deficit that remains in the pension fund at that time. In return, the council providing the gift receives an immediate reduction in deficit contributions, calculated as a present value of the expected future revenue from the portfolio of properties

7.46 Whilst we are not commenting on the actions of any fund that holds such an asset, potential concerns with these two types of arrangements could include:

> Funds need to carefully consider compliance aspects of such arrangements, including:

  - Compliance with local authority capital requirements, which specify that pension contributions should be met via revenue rather than capital accounts. At the point the gift is realised, this could be considered a capital asset transfer arrangement
  - Compliance with restrictions on employer related investments in the Occupational Pension Schemes (Investment) Regulations 2005 (as amended)

> The assets may not be the form of asset which best meets a pension fund's long term objectives and hence we have concerns whether they will ultimately meet the LTCE objective

> Due to complexity such asset transfer arrangements are likely to be associated with high set-up and management costs

> They are potentially high risk asset classes which the pension fund will need to monitor - again increasing costs

> As a minimum, we would expect the pension fund to need specific advice on the suitability of these assets

> The governance around future pension funds' decisions to accept such transfers should be carefully considered

7.47 The list above may not be exhaustive but is included to ensure that any council or fund considering entering into such an arrangement has considered relevant factors. We do not imply that funds that have already entered such an arrangement have not considered these aspects.

7.48 The asset transfer arrangements considered in this section do include those associated with bulk transfers of members between funds.

Recommendation 4:
We recommend the Scheme Advisory Board review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around any such transfers to ensure long term cost efficiency.

Government
Actuary's
Department

Local Government Pension Scheme England and Wales

Section 13 Report as at 31 March 2019

Appendices

October 2021

Contents

Appendix A: Compliance

A.1 In this appendix we set out checks we conducted to determine whether the actuarial valuations of the 88 Local Government Pension Scheme (LGPS) funds have been completed in accordance with the scheme regulations.

Statement of Compliance

A.2 The Government Actuary's Department (GAD) selected one fund as a representative example from each of the firms of actuarial advisors. The following statements of compliance were contained within the chosen reports by each firm:

Table A1: Statement of Compliance

Fund	Statement of compliance
London Borough of Enfield Pension Fund (Aon)	This report was commissioned by and is produced solely for the use of the Administering Authority. It is produced in compliance with: Regulation 62 of the Local Government Pension Scheme Regulations 2013.
London Borough of Sutton Pension Fund (Barnett Waddingham)	The purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2020 to 31 March 2023 as required under Regulation 62 of the Regulations.
Derbyshire Pension Fund (Hymans Robertson)	We have been commissioned by Derbyshire County Council ("the Administering Authority") to carry out an actuarial valuation of the Derbyshire Pension Fund ("the Fund") as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 ("the Regulations")
Lancashire County Pension Fund (Mercer)	This report is addressed to the Administering Authority of the Lancashire County Pension Fund ("the Administering Authority") and is provided to meet the requirements of Regulation 62 of the Local Government Pension Scheme Regulations 2013 (as amended) ("the Regulations").

Compliance with valuation regulations

Actuarial Valuation Reports Regulation 62 (1 - 2)

A.3 Regulation 62 (1) requires the administering authority to obtain an actuarial valuation report on the assets and liabilities of each of its pension funds, including a rates and adjustments certificate, as at 31st March 2016 and on 31st March in every subsequent valuation year (i.e. 31st March 2019). Regulation 62 (2) requires that the above documents be obtained by the first anniversary of the date at which the valuation is made, namely, 31 March 2020 in the case of the 2019 valuation.

Publication

A.4 Each chosen fund was published in accordance with regulations. The following table sets out dates of publication of the actuarial report.

Table A2: Publication date

Fund	Date of publication
London Borough of Enfield Pension Fund (Aon)	31 March 2020
London Borough of Sutton Pension Fund (Barnett Waddingham)	31 March 2020
Derbyshire Pension Fund (Hymans Robertson)	31 March 2020
Lancashire County Pension Fund (Mercer)	31 March 2020

Demographic Assumptions

A.5 Regulation 62 (3) states that the actuarial valuation report must contain a statement of the demographic assumptions that have been used in making the valuation, and must show how these assumptions reflect the experience that has actually occurred during the period since the last valuation. Each valuation report contains a section on demographic assumptions including all the assumptions that we would expect in an actuarial valuation report.

Table A3: Demographic Assumptions

Demographic	London Borough of Enfield Pension Fund (Aon)	London Borough of Sutton Pension Fund (Barnett Waddingham)	Derbyshire Pension Fund (Hymans Robertson)	Lancashire County Pension Fund (Mercer)
Pre-retirement mortality	✔	✔	✔	✔
Post-retirement mortality	✔	✔	✔	✔
Dependant mortality	✔	✔	✔	✔
Ill health retirement	✔	✔	✔	✔
Normal health retirements	✔	✔	✔	✔
Withdrawals	✔	✔	✔	✔
Promotional salary scale	✔	N/A	✔	N/A
Family details (partners and dependants)	✔	✔	✔	✔
50:50 option take-up	✔	✔	✔	✔
Commutation	✔	✔	✔	✔

Barnett Waddingham and Mercer did not make a separate promotional salary scale assumption and therefore effectively this was combined in their general pay increase assumption.

Local Experience

A.6 The regulation requires that the reports "must *show how* the assumptions relate to the events which have actually occurred in relation to members of the Scheme since the last valuation." in respect of the demographic assumptions. For the four chosen funds:

> All have shown differences between expectations and experiences for the inter-valuation period

We note that additional information on demographic experience and assumption setting may be contained in supporting (non-public) reports/advice.

Contribution Rates

A.7 Regulation 62 sets out that employer contributions are separated into two components:

- Primary rates which meet the cost of ongoing accrual for current active members; and
- Secondary rates, which are mainly established to repay deficit or eliminate surplus over a given period (the deficit/surplus recovery period).

A.8 Regulation 62 (6) states that when setting the contribution rates the actuary must have regard to:

- the existing and prospective liabilities arising from circumstances common to all those bodies

> the *desirability* of maintaining as nearly constant a common rate as possible

> the current version of the administering authority's funding strategy mentioned in regulation 58 (funding strategy statements), and

> the *requirement* to secure the solvency of the pension fund and the long-term cost efficiency of the Scheme, so far as relating to the pension fund.

A.9 Regulation 62 (4) states that the rates and adjustments certificate must specify both the primary rate of the employer's contribution and the secondary rate of the employer's contribution, for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.

A.10 Each valuation report must set out primary and secondary employer contribution rates.

Primary Rates

A.11 Regulation 62 (5) defines the primary rate of an employer's contribution as "the amount in respect of the cost of future accruals which, in the actuary's opinion, should be paid to a fund by all bodies whose employees contribute to it so as to secure its solvency", and specifies that this must be expressed as a percentage of the pay of their employees who are active members.

A.12 The following table shows the primary rate of employer contribution for the administering authorities whole fund:

Table A4: Primary contribution rate

Fund	Primary contribution rate
London Borough of Enfield Pension Fund (Aon)	18.5%
London Borough of Sutton Pension Fund (Barnett Waddingham)	19.2%
Derbyshire Pension Fund (Hymans Robertson)	18.5%
Lancashire County Pension Fund (Mercer)	17.4%

A.13 Each primary rate of employer contribution has been calculated to cover the cost of future benefits accrued by their employees. Each valuation also provides a breakdown of the primary rate for each employer. Each valuation provides a secondary rate for each employer (expressed as a cash amount and/or percentage of pay for each employer).

Secondary Rates

A.14 Regulation 62 (7) states that the secondary contribution rate may be expressed as either a percentage or a monetary amount. Each valuation provides a secondary rate for each employer (expressed as a cash amount and/or percentage of pay for each employer). The secondary rates of employer contributions for each valuation have been defined to be adjustments to the primary rate as required. In all cases, the secondary rates have been provided for the next three years for each employer.

Table A5: Whole fund Secondary Contribution Rates

Fund	2020/21	2021/22	2022/23
London Borough of Enfield Pension Fund (Aon)	£2,099,000 or 1.3% of pensionable pay plus £8,100	£2,175,000 or 1.3% of pensionable pay plus £8,400	£2,253,000 or 1.3% of pensionable pay plus £8,700
London Borough of Sutton Pension Fund (Barnett Waddingham)	4.5% of pensionable pay or £4,879,000	4.5% of pensionable pay or £5,058,000	4.5% of pensionable pay or £5,242,000
Derbyshire Pension Fund (Hymans Robertson)	£17,432,000	£17,752,000	£18,079,000
Lancashire County Pension Fund (Mercer)	£3,200,000 or £9,300,000 less 0.6% of pensionable pay	£3,300,000 or £9,700,000 less 0.6% of pensionable pay	£3,400,000 or £10,000,000 less 0.6% of pensionable pay

Rates and Adjustments Certificate (Regulation 62 (8))

A.15 Regulation 62 (8) states that the rates and adjustments certificate must contain a statement of the assumptions on which the certificate is given as respects:

(a) the number of members who will become entitled to payment of pensions under the provisions of the Scheme; and

(b) the amount of the liabilities arising in respect of such members

during the period covered by the certificate.

A.16 In the following table we set out where the assumptions for each valuation can be found.

A.17 Of the four chosen funds only two had Rates and Adjustments Certificate containing a clear statement detailing the assumptions on which the certificate has been given and where to find them in our opinion. We recommend that advisers consider further at subsequent valuations. However, we do not consider this to be material non-compliance.

Table A6: Location of assumptions

Fund	Statement in rates and adjustments certificate	Location of assumptions in valuation report
London Borough of Enfield Pension Fund (Aon)	Not transparent to GAD initially (but updated once highlighted)	Further information e
London Borough of Sutton Pension Fund (Barnett Waddingham)	✔	Appendix 2
Derbyshire Pension Fund (Hymans Robertson)	✔	Appendix 2
Lancashire County Pension Fund (Mercer)	Not transparent to GAD	Appendix A

Regulation 62 (9)

A.18 Regulation 62 (9) States that the administering authority must provide the actuary preparing a valuation or a rates and adjustments certificate with the consolidated revenue account of the fund and such other information as the actuary requests.

A.19 For each of the four valuation reports examined we have seen evidence of having received relevant data from the administering authority.

Appendix B: Consistency

B.1 In this appendix we set out analysis we undertook in relation to whether the actuarial valuations were carried out in a way which is not inconsistent with other valuations completed under the scheme regulations. This appendix contains comments and a number of charts referring to the following aspects:

- Key information
- Funding levels
- Discount rates
- Demographic assumptions

Key Information

B.2 Based on the recommendation in the 2016 report all funds provided a standardised dashboard of results. The standardised dashboard is provided below, but in green are suggested additional elements which have been recommended as part of the 2019 section 13 review.

Table B1: Dashboard

Item requested	Format
Past service funding position – local funding basis:	
Funding level (assets/liabilities)	*%*
Funding level (change since last valuation)	*%*
Asset value used at the valuation	*£m*
Value of liabilities	*£m*
Surplus (deficit)	*£m*
Discount rate – past service	*% pa*
Discount rate – future service used for contribution rate setting	*% pa*
Assumed pension increases (CPI)	*% pa*
Method of derivation of discount rate, plus any changes since the previous valuation	*Freeform text*
Assumed life expectancies at age 65:	
Average life expectancy for current pensioners – men currently age 65	*years*

Item requested	Format
Average life expectancy for current pensioners – women currently age 65	*years*
Average life expectancy for future pensioners – men currently age 45	*years*
Average life expectancy for future pensioners – women currently age 45	*years*

Past service funding position – SAB basis:	
Market value of assets	*£m*
Value of liabilities	*£m*
Funding level on SAB basis (assets/liabilities)	*%*
Funding level on SAB basis (change since last valuation)	*%*

Contributions rates payable:	*2019 Valuation*	*2022 Valuation*
Primary contribution rate (average for the fund)	*% pa*	*% pa*
Secondary contribution - 1st year of rates and adjustment certificate	*£m*	*£m*
Secondary contribution - 2nd year of rates and adjustment certificate	*£m*	*£m*
Secondary contribution - 3rd year of rates and adjustment certificate	*£m*	*£m*
Assumed payroll - 1st year of rates and adjustment certificate	*£m*	*£m*
Assumed payroll – 2nd year of rates and adjustment certificate	*£m*	*£m*
Assumed payroll – 3rd year of rates and adjustment certificate	*£m*	*£m*
Total expected contributions - 1st year of rates and adjustment certificate	*£m*	*£m*
Total expected contributions – 2nd year of rates and adjustment certificate	*£m*	*£m*
Total expected contributions – 3rd year of rates and adjustment certificate	*£m*	*£m*
Average total employer contribution rate (over the 3 years covered by the rates and adjustment certificate)	*%pa*	*% pa*
Average employee contribution rate (over the 3 years covered by the rates and adjustment certificate)	*%pa*	*% pa*
Employee contribution rate based on 1st year of rates and adjustment certificate assumed payroll	*£m*	*£m*

Item requested	Format	
Deficit recovery plan	*2019 Valuation*	*2022 Valuation*
Deficit/(Surplus) recovery period end date	*Year*	*Year*
Where a deficit recovery end date is not provided, please provide: time horizon for valuation funding plan	*Year*	*Year*
Likelihood of success of valuation funding plan on the 2019 time horizon	*%*	*%*
Additional information:		
Percentage of liabilities relating to employers with deficit recovery periods of longer than 20 years	%	
Percentage of total liabilities that are in respect of Tier 3 employers	%	

B.3 All information was included for the sample fund reports we considered in more detail listed below:

Fund
London Borough of Enfield Pension Fund (Aon)
London Borough of Sutton Pension Fund (Barnett Waddingham)
Derbyshire Pension Fund (Hymans Robertson)
Lancashire County Pension Fund (Mercer)

Funding Levels

B.4 Chart B1 shows how the ranking of local funding levels varies when results are restated onto the SAB standardised basis. We might expect the rankings of funding levels when calculated on the local bases to correspond roughly to the rankings of funding levels when calculated on the SAB standard basis. We would therefore expect the lines in Chart B1 joining each fund in the column on the left with itself in the column on the right to be roughly horizontal. However, we see that there is no clear correlation between how funds rank on local bases and how they rank on the SAB standard basis. To choose a typical example, Cheshire is ranked mid-table on the local basis but is towards the top quartile of the table on the SAB standard basis, indicating that their local fund basis is, relatively, more prudent than the other funds. To note we would expect the local funding basis to be prudent. A prudent basis is one where there is a greater than 50% likelihood that the available assets will cover the benefits in respect of accrued service when they fall due if assets are valued equal to liabilities.

Chart B1: Standardising Local Valuation Results

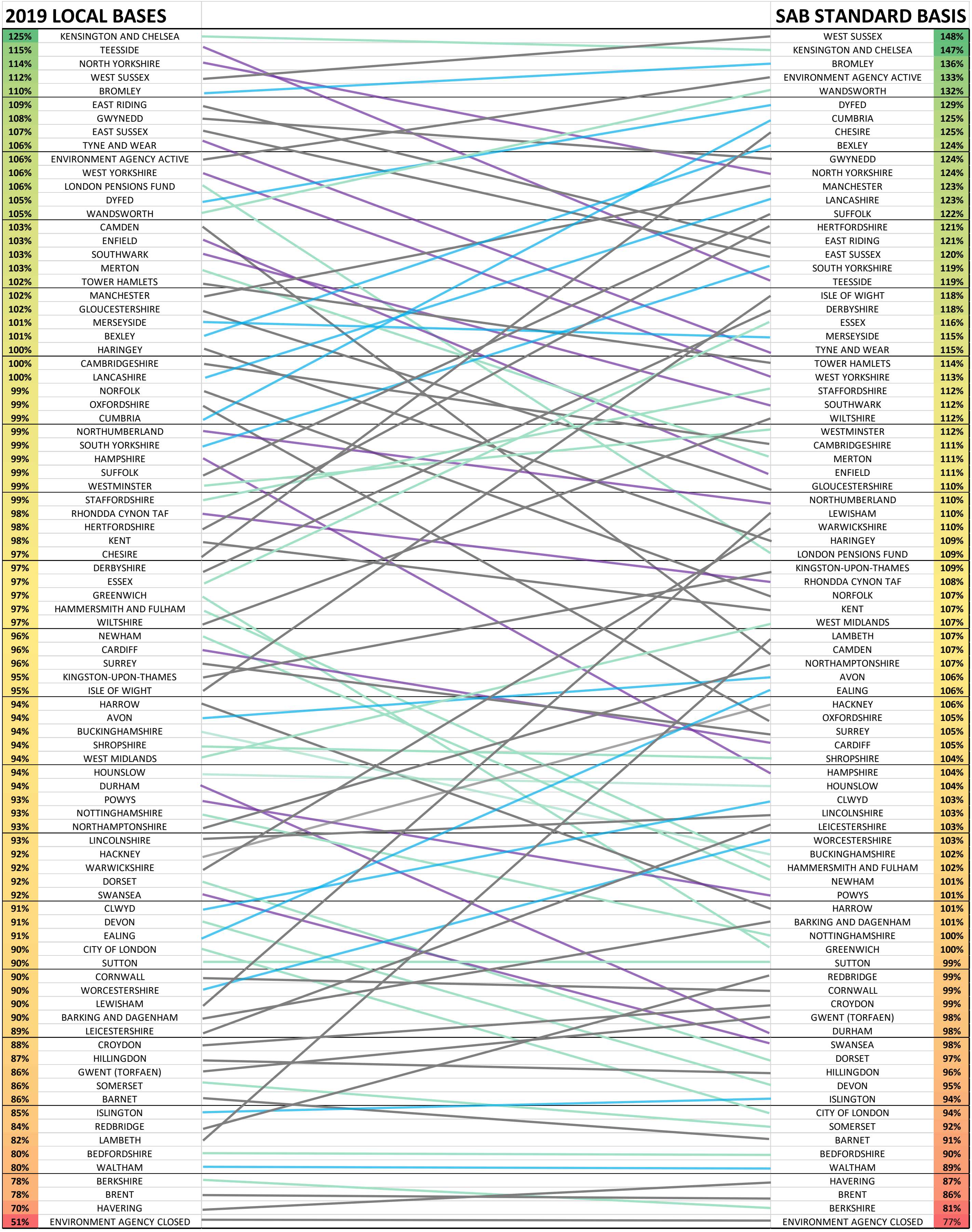
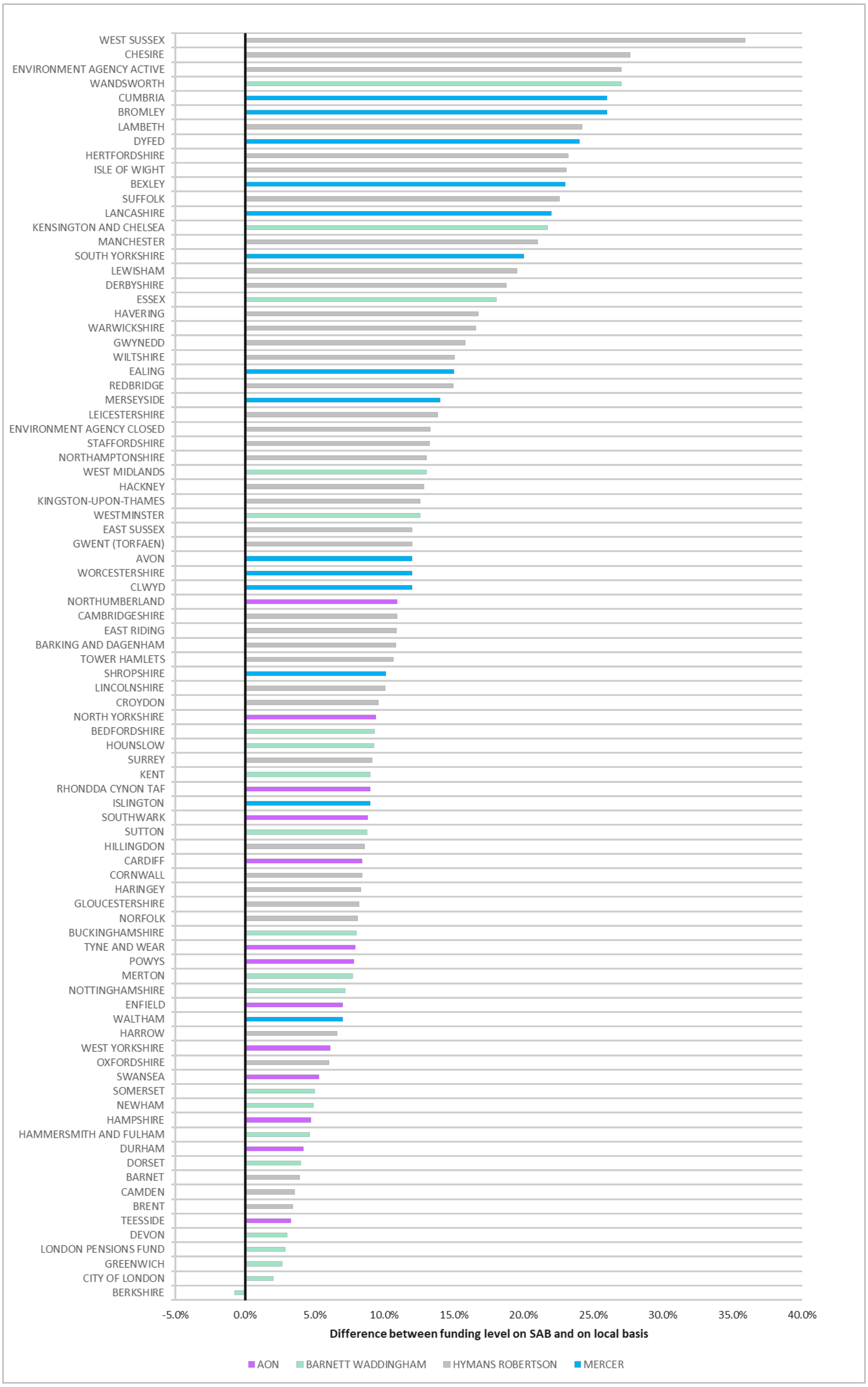


Chart B2: Difference Between Funding Level on SAB Standardised Basis and Funding Level on Local Bases



Discount Rates

B.5 Each firm of actuarial advisors applies their own method for calculating discount rates as shown in the table below.

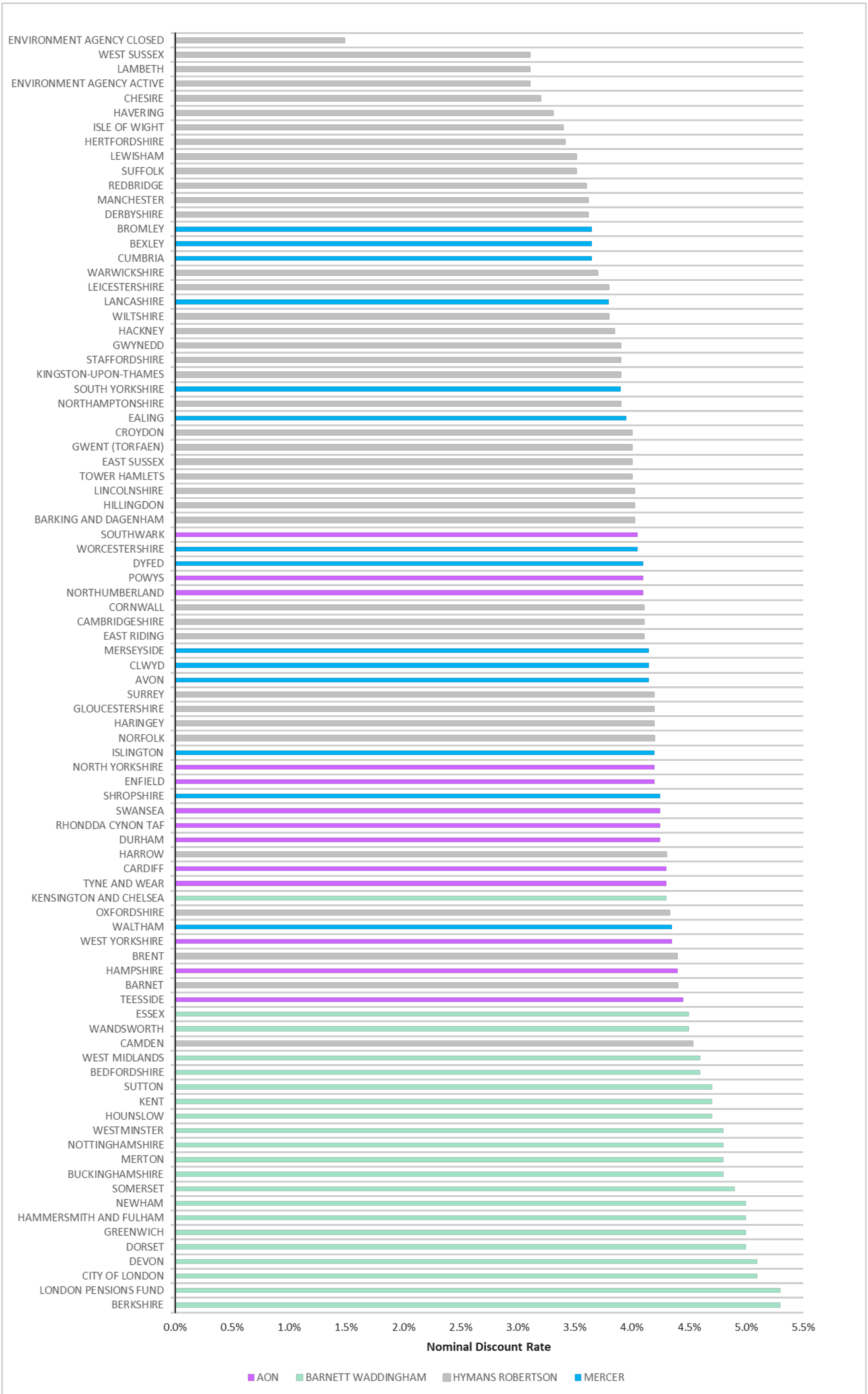
B.6 Chart B3 shows the pre-retirement discount rate used to assess past service liability applied in the actuarial valuations for each fund. Note that some funds (advised by Mercers') used different discount rates to assess past service liabilities and future service contribution rates, we consider only the former here.

B.7 The discount rates set by each fund are likely to be linked to the mix of assets held by the fund, and we would therefore expect to see differences in discount rate from fund to fund.

Table B2: Discount Rate Methodology

Fund	Discount rate methodology
London Borough of Enfield Pension Fund (Aon)	Stochastic modelling
London Borough of Sutton Pension Fund (Barnett Waddingham)	Weighted average expected return on long term asset classes
Derbyshire Pension Fund (Hymans Robertson)	Stochastic modelling
Lancashire County Pension Fund (Mercer)	Stochastic modelling

Chart B3: Pre – retirement Discount Rates

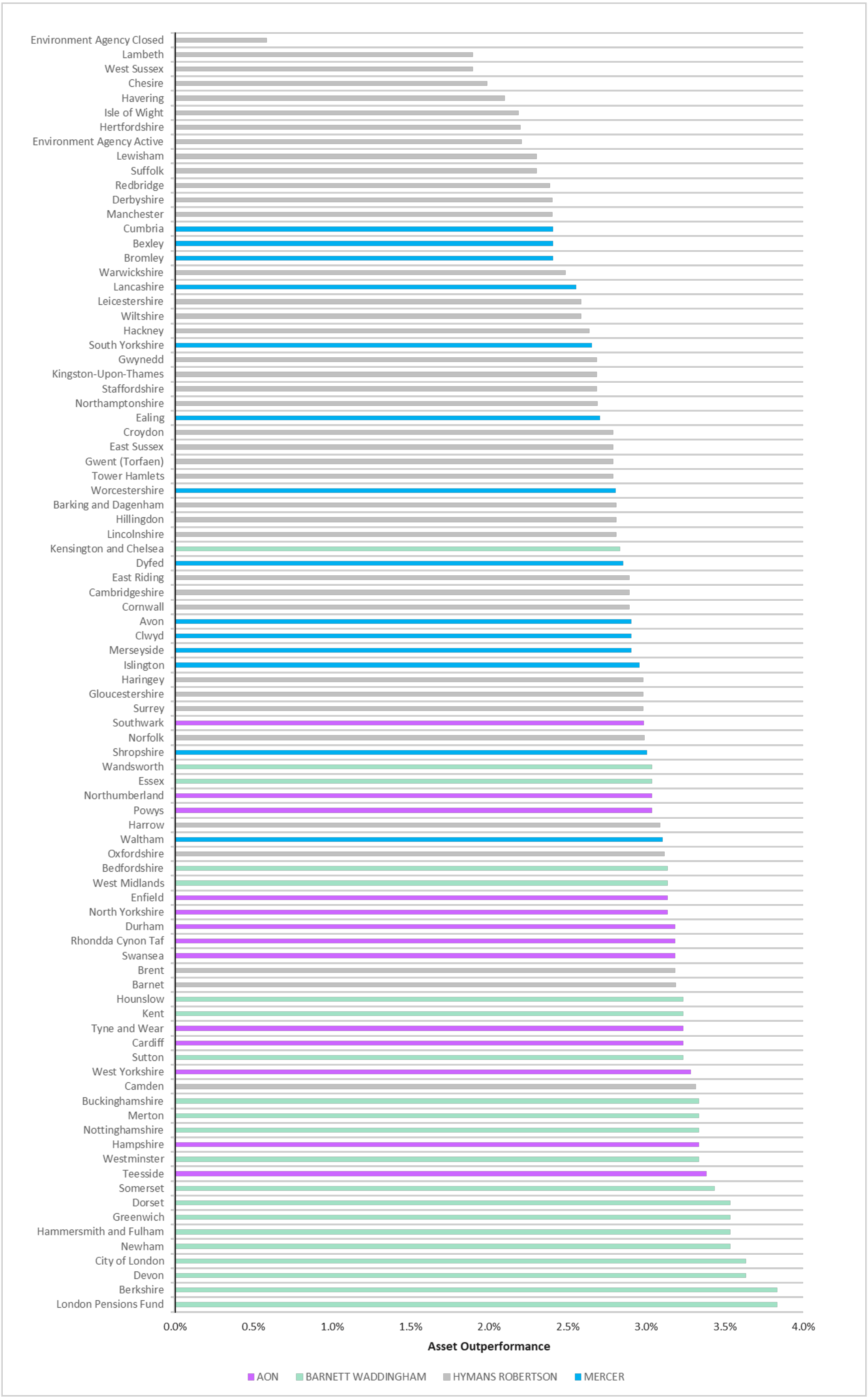


B.8 We assess implied asset outperformance as discount rate less risk free rate less RPI, where the risk free rate is taken to be the real 20 year Bank of England spot rate as at 31 March 2019 (-2.14%). Chart B4 shows the assumed asset out performance (“AOA”) over and above the risk free rate, where AOA is calculated as the fund’s nominal discount rate (“DR”) net of:

- The RFR – the real 20 year Bank of England spot rate as at 31 March 2019
- Assumed CPI – as assumed by the fund in their 2019 actuarial valuation
- The excess of assumed RPI inflation over assumed CPI inflation (“$\mathrm{RPI} - \mathrm{CPI}$”) – as assumed by the fund in their 2019 actuarial valuation i.e. $\mathrm{AOA} = \mathrm{DR} - \mathrm{RFR} - \mathrm{RPI}$. (Chart B4 shows the implied rate of asset outperformance for each fund.)

B.9 The implied asset outperformance shows less variation than in 2016. This may suggest some improvement in consistency in the assumption that in previous years. However, there is still a notable trend for funds advised by Aon and Barnett Waddingham to have higher levels of asset outperformance, whilst those advised by Hymans Robertson show lower levels of asset outperformance.

Chart B4: Assumed Asset Outperformance within Discount Rate



Demographic assumptions

B.10 Commutation assumptions (the extent to which members on average exchange pension in favour of a tax free cash benefit) are set as the percentage of the maximum commutable amount that a member is assumed to take on retirement. Chart B5 shows the assumed percentages for both pre 2008 and post 2008 pensions, which may be set separately.

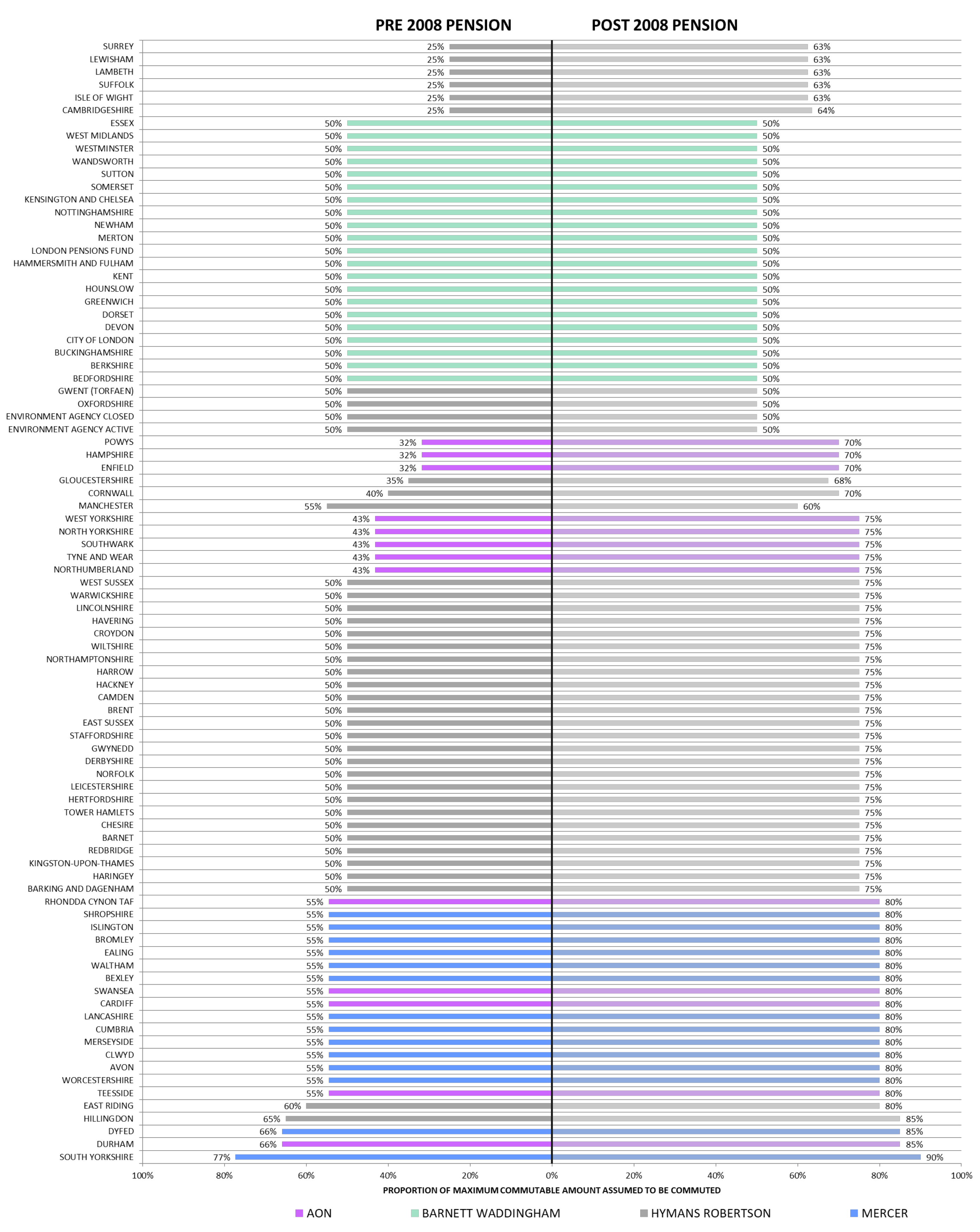
B.11 Other things being equal, it is more prudent to assume a lower rate of commutation, because the cost of providing a pension benefit is higher than the commutation factor. In addition, cash was provided as of right in the LGPS prior to 2008 whereas for benefits accrued after that date, cash was available only by commutation of pension.

B.12 The chart shows that the funds advised by Barnett Waddingham assume that members commute 50% of the maximum allowable cash amount. The majority of funds advised by Mercer assume that members take 80% of the maximum allowable cash amount. There is more variation in the commutation assumptions made by funds advised by Aon and Hymans Robertson. However, there is a noticeable cluster of funds assuming members commute 50% of the maximum allowable for pre 2008 pensions and 75% for post 2008 for Hymans Robertson clients.

B.13 If it is the case that firms of actuarial advisors find that there is insufficient data to make assumptions on a fund by fund basis, then it would be reasonable for them to make the assumption based on scheme wide data. However, each advisor only has access to the data from the funds that it advises, and therefore can only base their assumptions on the data from those funds. Another firm of actuarial advisors has access to the data for a different collection of funds and therefore might draw a different conclusion as to what the scheme wide average commutation rate is.

B.14 We encourage further discussions on how assumptions are derived based on local circumstances in valuation reports.

Chart B5: Commutation Assumptions for Pre and Post 2008 Pensions



Appendix C: Solvency

C.1 In this appendix we set out analysis we undertook in relation to whether the rate of employer contributions to the LGPS pension fund is set at an appropriate level to ensure the solvency of the pension fund. This appendix contains a description of:

> Solvency considerations

> Core Spending Power

> Mapping of solvency considerations to measures adopted

> Methodology used for solvency measures

> Table of outcomes for each fund

Potential for default

C.2 In the context of the LGPS:

> Our understanding based on confirmation from the Department for Levelling Up, Housing and Communities (DLUHC) is that, in contrast to employers in the private sector, there is no insolvency regime for local authorities

> Therefore, for the purposes of our analysis we assume that local authority sponsors cannot default on their pension liabilities through failure

> Members' benefits are therefore dependent on the assets of the scheme and future contributions from employers including local authorities

Solvency considerations

C.3 In assessing whether the conditions for solvency are met, we will have regard to:

Risks already present:

> funding level on the SAB standard basis

> whether or not the fund continues to be open to new members. If the fund is closed to new members or is highly mature and without any guarantee in place, we will focus on the ability to meet additional cash contributions.

> the ability of tax raising authorities to meet employer contributions

Emerging risks:

> the risks posed by changes to the value of scheme assets (to the extent that these are not matched by changes to the scheme liabilities)

> the proportion of scheme employers without tax raising powers or without statutory backing

C.4 We express the emerging risks in the context of Core Spending Power (for English local authorities, described below) or financing data (for Welsh local authorities). For funds which have no or limited Core Spending Power we have followed the same approach used in 2016 and the dry run.

Core Spending Power

C.5 GAD's stress tests are designed to test the ability of the underlying tax raising employers to meet a shock in the fund; one that results in a sustained reduction of the funding position, requiring remedial action from those employers in the form of long term additional contributions.

C.6 The purpose is to put this in the context of the financial resources available to those tax raising employers. In order to do that, DLUHC has pointed to an objective, well used and publicly available measure referred to as Core Spending Power. This applies for all local authorities across England and is published here.

C.7 Core Spending Power has the following components:

> Modified Settlement Funding Assessment

> Estimated Council Tax excluding Parish Precepts

> Potential additional Council Tax revenue from Adult Social Care flexibility

> Potential additional Council Tax revenue from £5 referendum principle for districts with lower quartile B and D

> Proposed Improved Better Care Fund

> Illustrative New Homes Bonus

> Rural Services Delivery Grant

C.8 GAD have referenced Core Spending Power for 2019-20 (to be consistent with the effective date of the data provided for section 13) as the measure of financial resource of the underlying (tax raising) employers, and amalgamated these up to the fund level, in order to compare like with like. The Core Spending Power 2019-20 data was subsequently revised, however the results were not revised as this was not material to GAD's recommendations.

C.9 Core Spending Power is not a measure of total local authority income. It does not include commercial income, sales fees and charges, or ring-fenced grants (except improved Better Care Fund). Core Spending Power includes an assumed modelled amount of locally retained business rates and as such does not include growth (or falls) in actual retained business rates. In some authorities, non-uniformed police employees participate in the LGPS, but their funding comes from Home Office. On the basis that the majority of this applies to uniformed police officers, no adjustment is made for it. Similarly, DfE funding for academies is not included.

C.10 Core Spending Power is publicly available and objective, therefore DLUHC have advised it is the best such measure available currently.

C.11 Core Spending Power does not apply to Welsh local authorities. For Welsh funds GAD have used "financing of gross revenue expenditure" ("financing data"), which is broadly comparable with Core Spending Power, following discussions with Welsh Government in 2016. This applies for all local authorities in Wales and is published here. The 2019-20 "financing of gross revenue expenditure" data was subsequently revised, however the results were not revised as this was not material to GAD's recommendations.

C.12 Financing data has the following components which GAD have included for the purpose of section 13 analysis:

> Adjustments (including amending reports)

- Council tax reduction scheme (including RSG element)
- Discretionary non-domestic rate relief
- General government grants
- Share of re-distributed non-domestic rates
- Amount to be collected from council tax

C.13 Financing data also has the following components which we have not included for the purpose of section 13 analysis:

- Specific grants
- Appropriations from(+) / to(-) reserves

C.14 We have referenced financing data for 2019-20 (to be consistent with the effective date of the data provided for section 13) as the measure of financial resource of the underlying (tax raising) employers, and amalgamated these up to the fund level, in order to compare like with like.

C.15 Similarly to Core Spending Power, financing data excludes income from sales, fees, and charges and we have excluded police funding from the analysis.

Solvency measures

C.16 The five solvency metrics adopted in the 2016 exercise have been adopted for the 2019 exercise. We developed and considered other measures but have excluded, for example the liability shock as it did not add value under current circumstances beyond what was already measured under asset shock.

Table C1: 2019 Solvency measures

Consideration	Measure Used
Risks already present:	
The relative ability of the fund to meet its accrued liabilities	**SAB funding level:** A fund's funding level using the SAB standard basis, as set out in Appendix G
The extent to which the fund continues to be open to new members. If a fund is closed to new members or is highly mature, we will focus on the ability to meet additional cash contributions	**Open fund:** Whether the fund is open to new members
The proportion of scheme employers without tax raising powers or without statutory backing	**Non-statutory members:** The proportion of members within the fund who are/were employed by an employer without tax raising powers or statutory backing
Emerging risks:	
The cost risks posed by changes to the value of scheme assets (to the extent that these are not matched by changes to the scheme liabilities)	**Asset shock:** The change in average employer contribution rates expressed as a percentage of Core Spending Power (or financing data) after a 15% fall in value of return-seeking assets
The impact that non-statutory employers defaulting on contributions would have on the income of sponsoring employers as a whole	**Employer default:** The change in average employer contribution rates as a percentage of Core Spending Power (or financing data) if all employers without tax raising powers or statutory backing default on their existing deficits

C.17 Emerging risk measures require assumptions. We used best estimate assumptions for this purpose, details of which can be found in Appendix G. Details of the methods used to calculate scores under each measure and the criteria used to assign a colour code can be found in this chapter.

Funds with no or low core spending

C.18 There were four funds with no or low core spending:

- City of London Corporation Pension Fund
- Environmental Agency Active Fund
- Environmental Agency Closed Fund
- London Pension Fund Authority Pension Fund

C.19 For each of these funds, we have reverted to the 2016 and dry run methodology for asset shock and employer default, which expressed the resulting additional contributions to meet the emerging deficit as a percentage of pensionable pay.

Solvency measures – methodology

C.20 We detail the methodology behind the measures used to assess a fund's solvency position. Some of the measures listed below were calculated using a market consistent set of assumptions. For more information on this best estimate basis please see Appendix G.

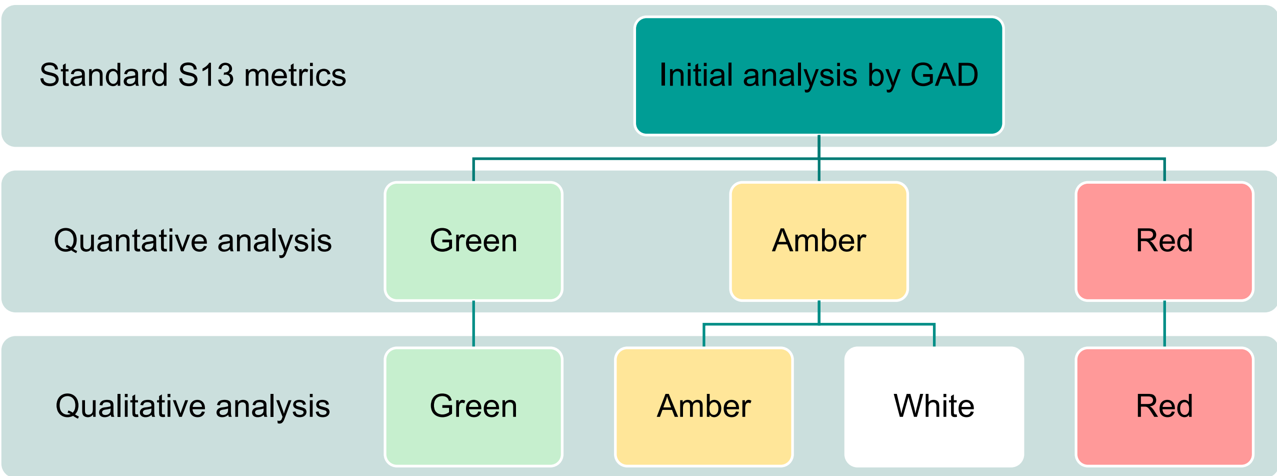
C.21 The 2016 exercise used red, amber and green ('RAG') flags for the solvency measure, where amber and red flags were raised when a fund breached thresholds set by GAD. For the 2019 exercise, GAD initially adopted the same RAG approach and 2016 thresholds, however the flag allocations were subsequently revised for the solvency measures taking into account to the following:

> The scheme funding position has improved significantly since 2016 (the aggregate funding position on prudent local bases improved from 85% to 98%)

> The size of funds has grown considerably over the past three years to 31 March 2019 but the ability of tax backed employers to increase contributions if required (as measured by core spending power and financing data) has not kept pace. This could pose a risk to the LGPS, for example if there is a severe shock to return seeking asset classes.

C.22 Following discussions with DLUHC, GAD agreed that it is not helpful to raise individual fund flags which have been primarily driven by the relatively larger increase in the size of funds relative to the possible contributions available and introduced the "white" flag. The white flag is an advisory flag that highlights a general risk but does not require action in isolation.

C.23 The chart below illustrates the steps taken by GAD in determining the flag colours for the metrics



C.24 The text box below defines each flag colour:

> **Key**
>
> RED indicates a material issue that may result in the aims of section 13 not being met. In such circumstances remedial action to ensure Solvency may be considered.
>
> AMBER indicates a potential material issue that we would expect funds' to be aware of. In isolation this would not usually contribute to a recommendation for remedial action in order to ensure Solvency.
>
> WHITE is an advisory flag that highlights a general issue but one which does not require an action in isolation. It may have been an amber flag if we had broader concerns.
>
> GREEN indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure Solvency.

C.25 GAD will assess the position at the time of the 2022 section 13 report and will decide whether to retain the white flag, return to the RAG approach or use other metrics/thresholds that are appropriate for the circumstances of the LGPS at that point in time.

SAB funding level: A fund's funding level using the SAB standard basis

C.26 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 detailed in Appendix G.

C.27 A fund in deficit will need to pay additional contributions in order to meet the liabilities that have already been accrued.

C.28 This measure assesses the relative funding levels of individual funds. All funds have been ordered by this measure (highest funding level first) and the five funds ranked 83 to 87 out of 88 (i.e. not including Environment Agency Closed Fund) are assigned an amber code. All other funds are assigned a green colour code.

C.29 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised.

Open fund: Whether the fund is open to new members

C.30 A scheme that is closed to new members will be closer to maturity than a scheme which is still open. This creates a possible risk to sponsoring employees as there is less scope to make regular contributions and receive investment returns on those contributions. Additionally, if problems do occur with the scheme funding level, the reduced time to maturity of the scheme means that additional contributions must be spread over a shorter timeframe and could be more volatile as a result.

C.31 This measure is a 'Yes' when a fund is still open to new members and a 'No' otherwise. A 'Yes' results in a green colour code, while a 'No' results in a red colour code. As at 31 March 2019, the Environment Agency Closed Fund is the only closed fund. However, given that this fund has a DEFRA guarantee we consider it appropriate to set the flag to green in this circumstance.

C.32 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised.

Non-statutory members: The proportion of members within the fund who are employed by an employer without tax raising powers or statutory backing

C.33 We have considered taxpayer-backed employers of stronger covenant value than other employers. It is important, in this context, that administering authorities and other employers understand the potential cost that may fall on taxpayers in the future if employers without statutory backing or tax raising powers are unable to meet their required contributions and those with such powers become responsible for the accrued costs.

C.34 Data for this measure has been taken from the publicly available ‘Local government pension scheme funds local authority data: 2019 to 20120’ published by DLUHC here. The data contains the number of employees within each fund by employer group, where:

- Group 1 refers to local authorities and connected bodies
- Group 2 refers to centrally funded public sector bodies
- Group 3 refers to other public sector bodies and
- Group 4 refers to private sector, voluntary sector and other bodies

C.35 For the purposes of this measure, and unless information has been provided to the contrary, it has been assumed that employers listed under groups 1 and 2 are those with tax raising powers or statutory backing and that employers listed under groups 3 and 4 are those without tax raising powers or statutory backing.

C.36 The measure therefore gives the proportion of members within the fund that are/were employed by group 1 and 2 employers as a proportion of all members within the fund.

C.37 Under this measure a fund has been allocated an amber colour code if its proportion of members who are employed by an employer without tax raising powers or statutory backing is between 25% and 50%, a red colour code would allocated if the proportion is more than 50%.and a green colour code in all other cases.

C.38 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised.

Asset shock: The change in average employer contribution rates as a percentage of Core Spending Power or financing data after a 15% fall in value of return-seeking assets

C.39 This measure shows the effect on total employer contribution rates of a one-off decrease in the value of a fund’s return seeking assets equal to 15% of the value of those assets expressed as a percentage of Core Spending Power or financing data. Defensive assets are assumed to be unaffected.

C.40 For the purposes of this measure liabilities have been restated on the standardised best estimate basis and deficit recovery periods have been standardised using a period of 20 years to ensure that results are comparable.

C.41 For the scenario where a fund is in deficit after the asset shock (the funding level is less than 100% after the shock) and the threshold has been breached, then an amber flag is raised. However, where the fund is in surplus after the shock and the fund had breached the threshold, the fund will not raise a flag but the risk remains that such an event could bring forward the need to increase contributions.

C.42 Return-seeking asset classes are assumed to be:

- Equities (UK, Overseas and Unquoted or private equities)
- Property
- Infrastructure investments which are equity type
- “Other” return seeking investment

Defensive asset classes are assumed to be:

- Cash
- Bonds (Gilts, Corporate Bonds or index linked)
- “Other” defensive investments

C.43 We calculated the emerging deficit from the shock following a 15% fall in return seeking assets which would be attributed to the employers covered by core spending or financing data (which we refer to as “% tax raising employers” below):

$$\text{New Deficit} = (\text{Pre stress asset value} - \text{post stress asset value}) \times \%\ \text{Tax raising employers}$$

We spread this over 20 years of annual payments and express as a percentage of Core Spending Power (or financing data for Welsh funds)

$$\frac{\text{New Deficit}}{\bar{a}_{20} \times \text{Core Spending Power}}$$

Where:

- new deficit is calculated on the standardised best estimate basis as at 31 March 2019
- $\bar{a}_{20}$ is a continuous annuity over the 20-year deficit recovery period at the rate of interest equal to $\frac{(1+i)}{(1+e)} - 1$.
- i is the nominal discount rate assumption on the standardised best estimate basis.
- e is the general earnings inflation assumption on the standardised best estimate basis

C.44 A fund is allocated an amber colour code if its result is above 3% and a green colour code otherwise.

C.45 For those funds with no/low core spending, the measure considered the change of contribution rate and was expressed as a percentage of pensionable pay, with an amber flag raised if that was greater than 5% and is in deficit after the asset shock. No results are available for the Environment Agency Closed Fund as there are no remaining active members within the fund with which to calculate contribution rates.

C.46 As set out in methodology section above, GAD undertook a subsequent qualitative analysis to consider whether it was felt that the risk identified was potentially material to the fund, and hence whether the amber flag should be maintained.

Employer default: The change in average employer contribution rates as a percentage of payroll if all employers without tax raising powers or statutory backing default on their existing deficits

C.47 LGPS regulations require employers to pay contributions set in the valuation. DLUHC has confirmed that:

> there is a guarantee of LGPS pension liabilities by a public body

> that public body is incapable of becoming insolvent, and

> the governing legislation is designed to ensure the solvency and long term economic efficiency of the Scheme.

C.48 It is important, in this context, that administering authorities and other employers understand the potential cost that may fall on taxpayers in the future if employers without statutory backing or tax raising powers are unable to meet their required contributions and those with such powers become responsible for the accrued costs.

C.49 A fund's deficit will not change as a result of the default, but as the deficit is spread over a smaller number of employers, the contribution rate for each remaining employer will increase.

C.50 For the purposes of this measure liabilities have been restated on the standardised best estimate basis and deficit recovery periods have been standardised using a period of 20 years to ensure that results are comparable.

C.51 For funds in surplus under the standardised best estimate basis, the flag colour for a fund is green, as there would be no deficits attributed to non-taxed backed employer, therefore the risk has been mitigated. The measure therefore considers those funds in deficit on the standardised best estimate basis.

C.52 We calculated the amount of deficit attributed to tax raising authorities if other public sector bodies & private sector, voluntary sector and other bodies were to default:

$$\text{Share of Deficit} = \text{Deficit} \times \%\,\text{non} - \text{tax raising employers}$$

C.53 We spread this over 20 years of annual payments and express as a percentage of Core Spending Power for most funds (Welsh funds use financing data and funds with no/low Core Spending use pensionable pay, as set out in C.55 below).

$$\frac{(\text{Share of Deficit})}{(\,\bar{a}_{20} \times \text{Core Spending Power})}$$

Where:

> Share of deficit is calculated on the standardised best estimate basis as at 31 March 2019

> $\bar{a}_{20}$ is a continuous annuity over the 20 year deficit recovery period at the rate of interest equal to $\frac{(1+\mathrm{i})}{(1+\mathrm{e})} - 1$.

> i is the nominal discount rate assumption on the standardised best estimate basis.

> e is the general earnings inflation assumption on the standardised best estimate basis

C.54 A fund is allocated an amber colour code if its result is greater than 3% and a green colour code otherwise.

C.55 For those funds with no/low core spending, the change of contribution rate was expressed as a percentage of pensionable pay, with an amber flag raised if that was greater than 2% and is in deficit after the asset shock. No results are available for the Environment Agency Closed Fund as there are no remaining active members within the fund with which to calculate contribution rates and Environmental agency closed as there is no SF3 data for the fund.

C.56 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised.

Solvency measures – by fund

Table C2: Solvency measures by fund

Pension fund	Open fund	SAB funding level	Non-Statutory employees	Asset shock	Employer default
Avon Pension Fund	Yes	106.0%	5.1%	2.2%	Surplus
Bedfordshire Pension Fund	Yes	89.3%	6.8%	2.2%	0.2%
Buckinghamshire County Council Pension Fund	Yes	102.0%	4.3%	2.1%	Surplus
Cambridgeshire Pension Fund	Yes	110.9%	9.2%	2.7%	Surplus
Cardiff and Vale of Glamorgan Pension Fund	Yes	104.2%	6.4%	1.5%	Surplus
Cheshire Pension Fund	Yes	124.9%	7.2%	Surplus	Surplus
City and County of Swansea Pension Fund	Yes	96.8%	3.7%	1.9%	0.0%
City of Westminster Pension Fund	Yes	111.2%	10.4%	2.9%	Surplus
Clwyd Pension Fund	Yes	103.0%	4.8%	1.4%	Surplus
Cornwall Pension Fund	Yes	98.7%	6.0%	1.3%	0.0%
Cumbria Local Government Pension Scheme	Yes	125.0%	6.8%	Surplus	Surplus
Derbyshire Pension Fund	Yes	115.8%	4.8%	Surplus	Surplus
Devon County Council Pension Fund	Yes	95.7%	5.2%	2.3%	0.1%
Dorset County Pension Fund	Yes	96.2%	4.7%	2.2%	0.1%
Durham County Council Pension Fund	Yes	98.0%	3.4%	2.4%	0.0%
Dyfed Pension Fund	Yes	129.0%	3.7%	Surplus	Surplus
East Riding Pension Fund	Yes	120.0%	2.6%	Surplus	Surplus
East Sussex Pension Fund	Yes	118.7%	1.7%	Surplus	Surplus
Essex Pension Fund	Yes	115.1%	9.1%	2.3%	Surplus
Gloucestershire County Council Pension Fund	Yes	109.9%	9.5%	2.4%	Surplus

Pension fund	Open fund	SAB funding level	Non-Statutory employees	Asset shock	Employer default
Greater Gwent (Torfaen) Pension Fund	Yes	97.7%	7.8%	1.7%	0.0%
Greater Manchester Pension Fund	Yes	123.3%	22.6%	Surplus	Surplus
Gwynedd Pension Fund	Yes	123.9%	3.3%	Surplus	Surplus
Hampshire County Council Pension Fund	Yes	103.6%	3.4%	2.6%	Surplus
Hertfordshire County Council Pension Fund	Yes	121.2%	5.4%	Surplus	Surplus
Isle of Wight Council Pension Fund	Yes	118.0%	2.7%	Surplus	Surplus
Islington Council Pension Fund	Yes	94.0%	6.1%	3.1%	0.1%
Kent County Council Pension Fund	Yes	107.4%	8.6%	2.5%	Surplus
Lancashire County Pension Fund	Yes	122.0%	8.2%	Surplus	Surplus
Leicestershire County Council Pension Fund	Yes	102.8%	1.4%	2.2%	Surplus
Lincolnshire Pension Fund	Yes	102.8%	2.8%	2.3%	Surplus
London Borough of Barking and Dagenham Pension Fund	Yes	100.4%	4.7%	2.7%	0.0%
London Borough of Barnet Pension Fund	Yes	89.8%	30.5%	1.4%	0.7%
London Borough of Bexley Pension Fund	Yes	124.0%	4.3%	Surplus	Surplus
London Borough of Brent Pension Fund	Yes	81.0%	17.1%	1.6%	0.6%
London Borough of Bromley Pension Fund	Yes	136.0%	12.9%	Surplus	Surplus
London Borough of Camden Pension Fund	Yes	106.5%	11.2%	3.5%	Surplus
London Borough of Croydon Pension Fund	Yes	98.0%	5.5%	1.5%	0.0%
London Borough of Ealing Pension Fund	Yes	106.0%	0.7%	1.7%	Surplus
London Borough of Enfield Pension Fund	Yes	110.2%	1.4%	1.5%	Surplus
London Borough of Hackney Pension Fund	Yes	105.2%	2.1%	2.7%	Surplus

Pension fund	Open fund	SAB funding level	Non-Statutory employees	Asset shock	Employer default
London Borough of Hammersmith and Fulham Pension Fund	Yes	101.3%	6.0%	2.7%	Surplus
London Borough of Haringey Pension Fund	Yes	108.7%	1.2%	2.7%	Surplus
London Borough of Harrow Pension Fund	Yes	100.8%	0.3%	2.2%	0.0%
London Borough of Havering Pension Fund	Yes	86.4%	1.5%	1.3%	0.0%
London Borough of Hillingdon Pension Fund	Yes	95.4%	1.2%	1.5%	0.0%
London Borough of Hounslow Pension Fund	Yes	103.2%	10.7%	2.4%	Surplus
London Borough of Lambeth Pension Fund	Yes	106.6%	1.0%	2.2%	Surplus
London Borough of Lewisham Pension Fund	Yes	109.5%	6.0%	2.0%	Surplus
London Borough of Merton Pension Fund	Yes	110.6%	2.1%	2.4%	Surplus
London Borough of Newham Pension Fund	Yes	100.8%	6.9%	1.8%	0.0%
London Borough of Redbridge Pension Fund	Yes	99.0%	10.9%	2.1%	0.0%
London Borough of Southwark Pension Fund	Yes	111.8%	3.0%	2.7%	Surplus
London Borough of Tower Hamlets Pension Fund	Yes	112.7%	6.4%	2.5%	Surplus
London Borough of Waltham Forest Pension Fund	Yes	87.0%	3.4%	1.6%	0.1%
Merseyside Pension Fund	Yes	115.0%	11.6%	3.6%	Surplus
Norfolk Pension Fund	Yes	107.4%	8.4%	2.4%	Surplus
North Yorkshire Pension Fund	Yes	123.4%	4.8%	Surplus	Surplus
Northamptonshire Pension Fund	Yes	106.1%	4.8%	2.3%	Surplus
Northumberland County Council Pension Fund	Yes	109.9%	3.9%	2.8%	Surplus
Nottinghamshire County Council Pension Fund	Yes	100.2%	4.8%	3.2%	0.0%
Oxfordshire County Council Pension Fund	Yes	105.2%	4.3%	3.2%	Surplus

Pension fund	Open fund	SAB funding level	Non-Statutory employees	Asset shock	Employer default
Powys County Council Pension Fund	Yes	101.0%	5.5%	1.3%	0.0%
Rhondda Cynon Taf County Borough Council Pension Fund	Yes	107.4%	5.8%	2.4%	Surplus
Royal Borough of Greenwich Pension Fund	Yes	99.4%	3.4%	2.6%	0.0%
Royal Borough of Kensington and Chelsea Pension Fund	Yes	146.5%	4.0%	Surplus	Surplus
Royal Borough of Kingston Upon Thames Pension Fund	Yes	107.8%	7.4%	2.1%	Surplus
Royal County of Berkshire Pension Fund	Yes	77.2%	6.0%	1.5%	0.3%
Shropshire County Pension Fund	Yes	104.1%	9.5%	2.1%	Surplus
Somerset County Council Pension Fund	Yes	91.0%	8.9%	2.5%	0.3%
South Yorkshire Pension Fund	Yes	119.0%	9.3%	Surplus	Surplus
Staffordshire Pension Fund	Yes	111.8%	5.9%	3.0%	Surplus
Suffolk Pension Fund	Yes	121.4%	4.9%	Surplus	Surplus
Surrey Pension Fund	Yes	104.7%	4.4%	2.3%	Surplus
Sutton Pension Fund	Yes	99.1%	2.4%	1.3%	0.0%
Teesside Pension Fund	Yes	118.1%	7.2%	Surplus	Surplus
Tyne and Wear Pension Fund	Yes	114.0%	12.1%	4.3%	Surplus
Wandsworth Council Pension Fund	Yes	132.2%	4.4%	Surplus	Surplus
Warwickshire Pension Fund	Yes	108.9%	0.0%	3.0%	Surplus
West Midlands Pension Fund	Yes	106.8%	8.6%	2.8%	Surplus
West Sussex County Council Pension Fund	Yes	147.5%	4.7%	Surplus	Surplus
West Yorkshire Pension Fund	Yes	112.1%	12.7%	4.1%	Surplus
Wiltshire Pension Fund	Yes	111.6%	27.0%	2.9%	Surplus

Pension fund	Open fund	SAB funding level	Non-Statutory employees	Asset shock	Employer default
Worcestershire County Council Pension Fund	Yes	102.0%	7.9%	2.5%	Surplus
City of London Corporation Pension Fund*	Yes	92.4%	10.9%	3.6%	0.5%
London Pensions Fund Authority Pension Fund*	Yes	108.6%	18.3%	7.3%	Surplus
Environment Agency Active Fund*	Yes	132.8%	N/A	Surplus	N/A
Environment Agency Closed Fund*	No	64.6%	N/A	N/A	N/A

Notes:
1. Funding levels are on the SAB standard basis.
2. The liability value and salary roll figures in the maturity indicator are as at 31 March 2019. The liability value was calculated on the standardised best estimate basis.
3. For funds marked * against asset shock we have assessed the shock as a percentage of pensionable pay (as we did in the 2016 and the dry run).

Appendix D: Long term cost efficiency

D.1 We developed a series of relative and absolute considerations to help assess whether the contributions met the aims of section 13 under long term cost efficiency. This appendix contains a description of:

- Mapping of long term cost efficiency considerations to measures adopted
- Methodology used for long term cost efficiency measures
- Engagement with funds which flagged on LTCE measures
- Table of outcomes for each fund

Long term cost efficiency – considerations and methodology

Table D1: Long term cost efficiency considerations and measures

Consideration	Measure Used
Relative considerations:	
The implied deficit recovery period	**Deficit Period:** Implied deficit recovery period calculated on a standardised best estimate basis (SAB Actuarial (section 13) key indicator 2)
The investment return required to achieve full funding	**Required Return:** The required investment return rates to achieve full funding in 20 years' time on a standardised best estimate basis (SAB Actuarial (section 13) key indicator 3)
The pace at which the deficit is expected to be paid off	**Repayment Shortfall:** The difference between: actual contribution in excess of GAD's best estimate of future service cost and the annual deficit recovery contributions required as a percentage of payroll to pay off the deficit in 20 years, where the deficit is calculated on a standardised best estimate basis
Absolute Considerations:	
The extent to which the required investment return above is less than the estimated future return being targeted by a fund's investment strategy	**Return Scope:** The required investment return rates as calculated in required return (i.e. SAB Actuarial (section 13) key indicator 3), compared with the fund's expected best estimate future returns assuming current asset mix maintained (SAB Actuarial (section 13) key indicator 3)
The extent to which any deficit recovery plan can be reconciled with, and can be demonstrated to be a continuation of, the previous deficit recovery plan, after allowing for actual fund experience	**Deficit Reconciliation:** Confirmation that the deficit period can be demonstrated to be a continuation of the previous deficit recovery plan, after allowing for actual fund experience

D.2 For the 2019 section 13 report, GAD has adopted the same measures as those in 2016. However, a further qualitative step was introduced to consider whether it was felt that the risk identified was potentially material to the fund.

D.3 Three of these measures were selected from the Actuarial section 13 KPIs defined by the SAB. The selected SAB measures have been augmented with two additional measures which we believe are appropriate in helping to assess whether the aims of section 13 are met.

D.4 The analyses and calculations carried out under these long term cost efficiency measures are approximate. They rely on the accuracy of the data provided by the respective local firms of actuarial advisors.

D.5 Although the calculations are approximate, we consider they are sufficient for the purposes of identifying which funds are a cause for concern. While the measures should not represent targets, these measures help us determine whether a more detailed review is required for example, we would have concern where multiples measures triggered amber for a given fund.

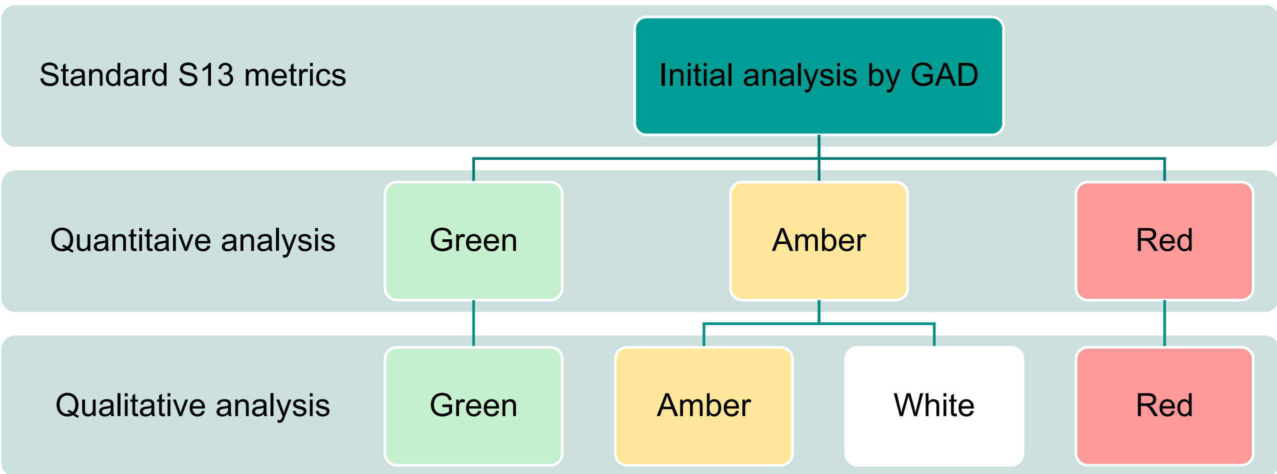
Long term cost efficiency measures – methodology

D.6 We detail the methodology behind the measures used to assess a fund's long term cost efficiency position below. Some of the measures listed below were calculated using a market consistent set of assumptions. For more information on this best estimate basis please see Appendix G.

D.7 The 2016 exercise used Red, Amber or Green ('RAG') flags for the solvency measure, where amber and red flags were raised when a fund breached thresholds set by GAD. For the 2019 exercise, GAD initially adopted the same RAG approach and 2016 thresholds, however the flag allocation was subsequently revised for the long term cost efficiency measures as GAD wished to concentrate on funds which raised multiple amber flags. GAD also introduced a subsequent qualitative measure, which considered the funding level relative to contributions graph, which assisted GAD on determining whether to flag and/or engage with a fund.

D.8 Following discussions with DLUHC, GAD agreed that it is not helpful to raise individual fund flags but rather concentrate on funds with multiple flags and this resulted in the introduction of a "white" flag. The white flag is an advisory flag that highlights a general risk but does not require action in isolation.

D.9 The chart below illustrates the steps taken by GAD in determining the flag colours for the metrics



D.10 The text box below defines each flag colour:

Key

RED indicates a material issue that may result in the aims of section 13 not being met. In such circumstances remedial action to ensure Solvency may be considered.

AMBER indicates a potential material issue that we would expect funds' to be aware of. In isolation this would not usually contribute to a recommendation for remedial action in order to ensure Solvency.

WHITE is an advisory flag that highlights a general issue but one which does not require an action in isolation. It may have been an amber flag if we had broader concerns.

GREEN indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure Solvency.

D.11 GAD will assess the position at the 2022 section 13 and will decide whether to retain the white flag, return to the RAG approach or use other metrics/thresholds that are appropriate for the circumstances of the LGPS at that point in time.

Deficit period: The implied deficit recovery period calculated on a standardised best estimate basis

D.12 This measure is based on SAB Actuarial (section 13) key indicator 2. However, as the SCAPE discount rate used in the SAB standard basis is not market-related, the calculations are done on a standardised best estimate basis.

D.13 The implied deficit recovery period on the standardised best estimate basis was found by solving the following equation for x:

D.14 $$\bar{a}_x = \frac{\text{Deficit on standardised BE basis}}{\text{Annual deficit recovery payment on standardised BE basis}}$$

Where:

- x is the implied deficit recovery period.
- $\bar{a}_x$ is a continuous annuity over x years at the rate of interest equal to $\frac{(1+i)}{(1+e)} - 1$.
- i is the nominal discount rate assumption on the standardised best estimate basis.
- e is the general earnings inflation assumption on the standardised best estimate basis.
- The deficit on the standardised best estimate basis is as at 31 March 2019.
- The annual deficit recovery payment on the standardised best estimate basis is calculated as the difference between the average employer contribution rate for the years 2020/21 to 2022/23, allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund, where deficit contributions are fixed (i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll), and the employer standard contribution rate on the standardised best estimate basis for the years 2020/21 to 2022/23 (which is assumed to be equal to the future cost of accrual of that particular fund).

D.15 Funds that were in surplus or where the implied deficit recovery period was less than 10 years were flagged as green. Those with recovery periods greater than or equal to 10 years were flagged as amber. If there were any funds that were paying contributions at a level that would result in an increase in deficit, they would have been flagged as red.

D.16 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised based on whether multiple flags were raised for a fund.

Required return: The required investment return rates to achieve full funding in 20 years' time on the standardised best estimate basis

D.17 This measure is based on SAB Actuarial (section 13) key indicator 3. However, as the SCAPE discount rate used in the SAB standard basis is not market related, the calculations are done on a standardised best estimate basis.

D.18 The following assumptions were made for the purposes of this calculations:

- Time 0 is 31 March 2019.
- Time 20 is 31 March 2039.
- A_0 is the value of the fund's assets at time 0, and was obtained from the data provided by the local firms of actuarial advisors.
- A_{20} is the projected value of the fund's assets at time 20 (using the equation below)
- L_0 is the value of the fund's liabilities at time 0, on a standardised best estimate basis
- L_{20} is the projected value of the fund's liabilities at time 20 (using the equation below)
- C_0 is one year's employer contributions paid from time 0
- C_{0-20} is the total employer contributions payable over the period time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10)
- B_0 is the value of one year's benefits paid (excluding transfers) from time 0
- B_{0-20} is the total value of benefits payable (excluding transfers) over the period time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10).
- SCR_0 is the standard contribution rate payable from time 0 to time 1 on a standardised best estimate basis.
- SCR_{0-20} is the standard contribution rate payable from time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10).
- Sal_0 is the salary roll at time 0 and was obtained from the data provided by the local firms of actuarial advisors.
- i is the nominal discount rate assumption on the standardised best estimate basis.
- e is the general earnings assumption on the standardised best estimate basis.
- x is the required investment return that is to be calculated

D.19 The membership profile is assumed to be constant.

D.20 The assets and liabilities at time 20 were then equated and the resulting quadratic equation solved to find the required rate of investment return to achieve full funding, i.e.:

$$A_{20} - L_{20} = 0$$

Where:

- $A_{20} = [A_0 \times (1+x)^{20}] + [(C_{0-20} - B_{0-20}) \times (1+x)^{10}]$
- $L_{20} = [L_0 \text{ x } (1+i)^{20}] + [(SCR_{0-20} - B_{0-20}) \times (1+i)^{10}]$
- $C_{0-20} = C_0 \times 20 \times (1+e)^{10}$
- $B_{0-20} = B_0 \times 20 \times (1+e)^{10}$
- $SCR_{0-20} = Sal_0 \times SCR_0 \times 20 \times (1+e)^{10}$

D.21 Where the required investment return was higher than the nominal discount rate on the standardised best estimate basis (i.e. i where i = 4.30%) funds would be classified as amber, whereas funds were classified as green if the required return was less than i.

D.22 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised based on whether multiple flags were raised for a fund.

Repayment shortfall: The difference between the actual contribution rate net of GAD's best estimate future service cost and the annual deficit recovery contributions (on a standardised best estimate basis and assuming deficit is paid off in 20 years), as a percentage of payroll

D.23 This measure is an extension from the deficit period measure, as it considers the affordability of the deficit on GAD's best estimate basis. For this calculation we determine the difference between:

- The employer contributions in excess of GAD's best estimate future service cost, and
- The required annual deficit recovery contribution rate on a standardised best estimate basis to pay off the deficit in 20 years' time (the 20 year deficit recovery period is based on the SAB Actuarial (section 13) key indicator 3)

D.24 The required annual deficit recovery contribution rate to be paid on a standardised best estimate basis is equal to:

$$\frac{\text{Deficit on standardised best estimate basis}}{\bar{a}_{20} \times \text{ Salary Roll}}$$

Where:

- The deficit on the standardised best estimate basis is as at 31 March 2019.
- $\bar{a}_{20}$ is a continuous annuity over the 20 year deficit recovery period at the rate of interest equal to $\frac{(1+i)}{(1+e)} - 1$.
- i is the nominal discount rate assumption on the standardised best estimate basis.
- e is the general earnings inflation assumption on the standardised best estimate basis.
- The salary roll is as at 31 March 2019 and has not been adjusted.

D.25 The difference in deficit recovery contribution rates is then defined as:

$$(\text{Avg ER cont rate paid} - \text{ ER SCR on BE basis}) - \frac{\text{Deficit on BE basis}}{\bar{a}_{20} \text{ x Salary Roll}}$$

Where:

- The average employer contribution rate is for the years 2020/21 – 2022/23, allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund where deficit contributions are fixed (i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll).

- The employer standard contribution rate on the standardised best estimate basis is for the years 2020/21 – 2022/23. It is assumed that the standard contribution rate is equal to the future cost of accrual of that particular fund.

D.26 The data required for each of the funds to carry out the above calculation was provided by their respective firms of actuarial advisors.

D.27 Where appropriate data has been restated on the standardised best estimate basis.

D.28 Funds in surplus on GAD's best estimate basis or where the difference in deficit recovery contribution rates is greater than 0% are flagged as green. Where the difference between contribution rates is between 0% and -3%, the funds would be flagged as amber and if the difference in deficit recovery contribution rates is less than -3%, then the fund would be flagged as red.

D.29 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised based on whether multiple flags were raised for a fund.

Return scope: The required investment return rates as calculated in required return, compared with the fund's expected best estimate future returns assuming current asset mix maintained

D.30 This measure is based on SAB Actuarial (section 13) key indicator 3.

D.31 The required investment return (x) calculated in the required return measure was compared against the best estimate investment return expected from the fund's assets held on 31 March 2019.

D.32 The asset data used in this calculation was provided by each fund's respective firm of actuarial advisors.

D.33 Funds where the best estimate future returns were higher than the required investment return by 0.5% or more were flagged as green. Those funds where this difference was between 0% and 0.5% would be flagged as amber whilst those where the best estimate returns were lower than the required investment returns were flagged as red.

D.34 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised based on whether multiple flags were raised for a fund.

Deficit reconciliation: Confirmation that the deficit period can be demonstrated to be a continuation of the previous deficit recovery plan, after allowing for actual fund experience

D.35 This measure is used to monitor the change in the deficit recovery end point set locally by the fund at each valuation and what the underlying reasons are for any adverse changes in this period.

D.36 This measure considers the following:

- Whether contributions have decreased since the previous valuations (reducing the burden on current tax payers)
- Whether the deficit recovery end point has moved further into the future, compared with the previous valuation (increasing the burden on future tax payers)

D.37 Funds where both of the above have occurred are flagged amber otherwise funds are flagged green. There was no allowance for white flags as this measure indicates a material issue that funds should be aware of.

Long term cost efficiency measures – engagement

D.38 The metrics set out above and qualitative analysis of funds funding position relative to the contribution helped determine which funds GAD would engage with to discuss the potential material and material risks and the general issues that arose from the analysis. The approach used for determining whether to engage with funds was based on the approach set out in paragraph D.7, however GAD undertook two types of engagements:

- "Full" Engagement –discussion with funds for which a combination of flags for were raised, which raised material or potentially material risks
- "Light" Engagement – discussion with funds where a combination of flags was not raised but which were close to flagging and therefore may want to take action to avoid the likelihood of being flagged in the section 13 report following the 2022 valuation

Full engagement

D.39 The four funds for which GAD held a "Full" engagement with set out in the main report are City of London Corporation Pension Fund, Royal County of Berkshire Pension Fund, Islington County Pension Fund and Devon County Council Pension Fund. The engagement with all funds was constructive.

D.40 Following the initial engagement Islington County Pension Fund committed to making an additional contribution which was sufficient to remove the flags raised.

D.41 Further Devon County Council Pension Fund confirmed a post valuation investment had been made which was again sufficient prove their position to remove the concerns

Light Engagement

D.42 GAD also engaged with funds with funds where a combination of flags were not raised but where some flags may been raised and where the funding level and contribution levels were low relative to the other LGPS funds. The funds which GAD engaged with were:

- Dorset County Pension Fund (Barnett Waddingham)
- London Borough of Newham Pension Fund (Barnett Waddingham)
- Royal Borough of Greenwich Pension Fund (Barnett Waddingham)
- Somerset County Council Pension Fund (Barnett Waddingham)
- London Borough of Waltham Forest (Mercer)

D.43 The engagement with these funds was positive and GAD explained that whilst these funds were not part of the "full" engagement there were concerns regarding the position of these funds and that the funds may wish to take action in order to reduce the likelihood of being flagged in the section 13 report following the 2022 valuation.

Long term cost efficiency measures – by fund

Table D2: Long term cost efficiency measures by fund

Pension fund	Maturity (rank)	Deficit period (rank)	Required return (rank)	Repayment shortfall	Return scope (rank)	Deficit recovery plan
Avon Pension Fund	7.5 (52)	Surplus	3.3% (48)	Surplus	0.8% (61)	Green
Bedfordshire Pension Fund	6.6 (84)	8 (76)	3.4% (51)	5.7%	0.3% (77)	Green
Buckinghamshire County Council Pension Fund	6.6 (85)	Surplus	3.4% (54)	Surplus	0.6% (70)	Green
Cambridgeshire Pension Fund	7 (68)	Surplus	3.1% (39)	Surplus	1.6% (23)	Green
Cardiff and Vale of Glamorgan Pension Fund	7.2 (65)	Surplus	3.6% (67)	Surplus	0.7% (67)	Green
Cheshire Pension Fund	7.7 (41)	Surplus	2.4% (10)	Surplus	1.2% (38)	Green
City and County of Swansea Pension Fund	7.3 (59)	6 (74)	3.7% (72)	3.9%	0.9% (53)	Green
City of Westminster Pension Fund	10.9 (1)	Surplus	0.3% (1)	Surplus	4.3% (1)	Green
Clwyd Pension Fund	7.3 (61)	Surplus	3% (35)	Surplus	0.9% (55)	Green
Cornwall Pension Fund	7.3 (62)	3 (69)	3.4% (55)	5.7%	0.3% (78)	Green
Cumbria Local Government Pension Scheme	8 (26)	Surplus	2.4% (12)	Surplus	1.2% (35)	Green
Derbyshire Pension Fund	6.9 (73)	Surplus	3.2% (40)	Surplus	1% (50)	Green
Devon County Council Pension Fund	7.6 (43)	15 (85)	4.2% (86)	0.8%	0.6% (71)	Green
Dorset County Pension Fund	7.5 (53)	9 (78)	4% (83)	2.2%	0.3% (79)	Green
Durham County Council Pension Fund	8 (29)	5 (71)	3.7% (70)	4.1%	-0.1% (85)	Green
Dyfed Pension Fund	6.8 (76)	Surplus	2.9% (26)	Surplus	1.6% (19)	Green
East Riding Pension Fund	7.3 (58)	Surplus	2.9% (25)	Surplus	1.7% (18)	Green
East Sussex Pension Fund	7.5 (50)	Surplus	3.1% (38)	Surplus	1.2% (34)	Green
Essex Pension Fund	7 (70)	Surplus	2.6% (14)	Surplus	1.9% (13)	Green

Pension fund	Maturity (rank)	Deficit period (rank)	Required return (rank)	Repayment shortfall	Return scope (rank)	Deficit recovery plan
Gloucestershire County Council Pension Fund	7.7 (38)	Surplus	2.3% (9)	Surplus	2.1% (7)	Green
Greater Gwent (Torfaen) Pension Fund	7.4 (56)	6 (73)	3.8% (75)	3.5%	0.8% (63)	Green
Greater Manchester Pension Fund	8.6 (15)	Surplus	2.6% (18)	Surplus	1.7% (16)	Green
Gwynedd Pension Fund	6.8 (81)	Surplus	2.9% (24)	Surplus	1.7% (17)	Green
Hampshire County Council Pension Fund	6.9 (72)	Surplus	3.9% (80)	Surplus	0.3% (80)	Green
Hertfordshire County Council Pension Fund	6.8 (77)	Surplus	2.6% (16)	Surplus	1.1% (44)	Green
Isle of Wight Council Pension Fund	8.7 (13)	Surplus	2.6% (15)	Surplus	1.9% (10)	Green
Islington Council Pension Fund	8.5 (17)	10 (80)	3.9% (79)	3.0%	0.7% (68)	Green
Kent County Council Pension Fund	6.9 (74)	Surplus	3.2% (41)	Surplus	1.3% (32)	Green
Lancashire County Pension Fund	7.5 (51)	Surplus	2.9% (23)	Surplus	1.5% (25)	Green
Leicestershire County Council Pension Fund	6.8 (78)	Surplus	2.9% (27)	Surplus	1.1% (41)	Green
Lincolnshire Pension Fund	6.9 (71)	Surplus	3% (33)	Surplus	1.6% (22)	Green
London Borough of Barking and Dagenham Pension Fund	7.5 (45)	2 (65)	3.5% (63)	5.1%	1% (48)	Amber
London Borough of Barnet Pension Fund	8 (28)	10 (79)	3.6% (66)	4.4%	0.2% (81)	Green
London Borough of Bexley Pension Fund	7.4 (55)	Surplus	2.6% (17)	Surplus	1.9% (14)	Green
London Borough of Brent Pension Fund	9.1 (7)	10 (81)	3% (32)	8.6%	1.6% (20)	Green
London Borough of Bromley Pension Fund	7.5 (46)	Surplus	1.9% (3)	Surplus	2.6% (4)	Green
London Borough of Camden Pension Fund	9.6 (5)	Surplus	2% (4)	Surplus	2.9% (3)	Green
London Borough of Croydon Pension Fund	6.9 (75)	4 (70)	3.5% (60)	4.8%	0.9% (56)	Green
London Borough of Ealing Pension Fund	7.7 (40)	Surplus	3.1% (37)	Surplus	1.1% (45)	Green
London Borough of Enfield Pension Fund	6.8 (79)	Surplus	3.4% (53)	Surplus	0.5% (73)	Green
London Borough of Hackney Pension Fund	8.2 (22)	Surplus	2.2% (8)	Surplus	2.1% (9)	Green
London Borough of Hammersmith and Fulham Pension Fund	10.6 (4)	Surplus	3.8% (74)	Surplus	0.4% (75)	Green

Pension fund	Maturity (rank)	Deficit period (rank)	Required return (rank)	Repayment shortfall	Return scope (rank)	Deficit recovery plan
London Borough of Haringey Pension Fund	9.1 (8)	Surplus	3.4% (50)	Surplus	0.8% (59)	Green
London Borough of Harrow Pension Fund	8.4 (20)	1 (64)	3.6% (64)	5.3%	1.1% (43)	Green
London Borough of Havering Pension Fund	8 (27)	12 (84)	3.7% (69)	4.0%	0.1% (83)	Green
London Borough of Hillingdon Pension Fund	8.1 (25)	8 (75)	3.8% (76)	3.4%	-0.1% (86)	Green
London Borough of Hounslow Pension Fund	7.6 (44)	Surplus	3.4% (57)	Surplus	1% (47)	Green
London Borough of Lambeth Pension Fund	10.7 (2)	Surplus	2.7% (20)	Surplus	1.6% (24)	Green
London Borough of Lewisham Pension Fund	9 (9)	Surplus	3.3% (44)	Surplus	0.5% (72)	Green
London Borough of Merton Pension Fund	7.5 (49)	Surplus	3.5% (61)	Surplus	1% (49)	Green
London Borough of Newham Pension Fund	7.5 (48)	2 (67)	4% (82)	2.3%	-0.3% (87)	Green
London Borough of Redbridge Pension Fund	7.7 (37)	5 (72)	3.9% (81)	2.4%	0.5% (74)	Amber
London Borough of Southwark Pension Fund	8.4 (21)	Surplus	2.8% (22)	Surplus	1.5% (28)	Green
London Borough of Tower Hamlets Pension Fund	8.8 (12)	Surplus	2.1% (6)	Surplus	2.2% (5)	Green
London Borough of Waltham Forest	8.1 (24)	11 (82)	3.6% (65)	4.2%	0.8% (65)	Green
Merseyside Pension Fund	9.2 (6)	Surplus	3.3% (47)	Surplus	1.2% (36)	Green
Norfolk Pension Fund	7.7 (39)	Surplus	3% (28)	Surplus	1.4% (31)	Green
North Yorkshire Pension Fund	6.5 (86)	Surplus	3% (31)	Surplus	0.9% (51)	Green
Northamptonshire Pension Fund	7.3 (63)	Surplus	3% (34)	Surplus	1.5% (27)	Green
Northumberland County Council Pension Fund	8.8 (11)	Surplus	3.2% (43)	Surplus	1.1% (42)	Green
Nottinghamshire County Council Pension Fund	6.7 (82)	2 (66)	3.6% (68)	4.5%	0.9% (52)	Green
Oxfordshire County Council Pension Fund	7.2 (64)	Surplus	3.7% (71)	Surplus	0.9% (54)	Green
Powys County Council Pension Fund	8.1 (23)	1 (63)	3.2% (42)	7.3%	0.8% (64)	Green

Pension fund	Maturity (rank)	Deficit period (rank)	Required return (rank)	Repayment shortfall	Return scope (rank)	Deficit recovery plan
Rhondda Cynon Taf County Borough Council Pension Fund	7.9 (32)	Surplus	3.5% (62)	Surplus	0.8% (62)	Green
Royal Borough of Greenwich Pension Fund	7 (69)	9 (77)	4.2% (85)	0.8%	0.2% (82)	Green
Royal Borough of Kensington and Chelsea Pension Fund	8.4 (18)	Surplus	2% (5)	Surplus	3.1% (2)	Green
Royal Borough of Kingston Upon Thames Pension Fund	7.5 (47)	Surplus	3.3% (49)	Surplus	1.1% (39)	Green
Royal county of Berkshire Pension Fund	6.6 (83)	25 (87)	4.6% (87)	-1.5%	0.1% (84)	Green
Shropshire County Pension Fund	7.9 (31)	Surplus	3.5% (59)	Surplus	0.6% (69)	Green
Somerset County Council Pension Fund	7.8 (36)	12 (83)	3.9% (78)	2.9%	1.6% (21)	Green
South Yorkshire Pension Fund	7.8 (34)	Surplus	3% (30)	Surplus	1.4% (30)	Green
Staffordshire Pension Fund	8.7 (14)	Surplus	2.5% (13)	Surplus	1.9% (11)	Green
Suffolk Pension Fund	7.4 (54)	Surplus	2.4% (11)	Surplus	1.9% (12)	Green
Surrey Pension Fund	7.2 (66)	Surplus	3.4% (52)	Surplus	1.1% (40)	Green
Sutton Pension Fund	6.4 (87)	2 (68)	3.3% (46)	5.8%	0.7% (66)	Green
Teesside Pension Fund	8.5 (16)	Surplus	3.8% (73)	Surplus	0.9% (57)	Green
Tyne and Wear Pension Fund	8.9 (10)	Surplus	3.5% (58)	Surplus	1.2% (37)	Green
Wandsworth Council Pension Fund	8.4 (19)	Surplus	2.1% (7)	Surplus	2.1% (8)	Green
Warwickshire Pension Fund	7.3 (60)	Surplus	3.3% (45)	Surplus	1.1% (46)	Green
West Midlands Pension Fund	7.9 (30)	Surplus	2.7% (21)	Surplus	1.5% (26)	Green
West Sussex County Council Pension Fund	6.8 (80)	Surplus	1.7% (2)	Surplus	2.2% (6)	Green
West Yorkshire Pension Fund	7.3 (57)	Surplus	3.8% (77)	Surplus	0.8% (60)	Green
Wiltshire Pension Fund	7.1 (67)	Surplus	2.6% (19)	Surplus	1.5% (29)	Green
Worcestershire County Council Pension Fund	7.7 (42)	Surplus	3% (36)	Surplus	1.8% (15)	Green
City of London Corporation Pension Fund	7.8 (35)	15 (86)	4.1% (84)	1.2%	0.3% (76)	Green

Pension fund	Maturity (rank)	Deficit period (rank)	Required return (rank)	Repayment shortfall	Return scope (rank)	Deficit recovery plan
London Pensions Fund Authority Pension Fund	10.6 (3)	Surplus	3.4% (56)	Surplus	0.9% (58)	Green
Environment Agency Active Fund	7.8 (33)	Surplus	3% (29)	Surplus	1.3% (33)	Green
Environment Agency Closed Fund	0 (N/A)	N/A	N/A	N/A	N/A	N/A

Notes:
1. The liability value and salary roll figures in the maturity indicator are as at 31 March 2019. The liability value was calculated on the standardised best estimate basis.

Appendix E: ALM

Why perform an Asset Liability Modelling (ALM) exercise?

E.1 An ALM exercise allows us to simultaneously project the assets and liabilities of the scheme under a range of simulations (known as stochastic economic scenarios), to investigate possible outcomes for key variables and metrics. Modelling the scheme in this way allows us to understand not only central, expected outcomes but also the wider range of possible outcomes and associated probabilities.

E.2 A common use of ALM studies is to help scheme managers and sponsors determine investment, contribution and funding policy by illustrating the impact of changing policy on key variables, such as the funding level (i.e. ratio of assets to liabilities), of the scheme under a range of scenarios.

E.3 For this piece of work, we modelled the whole Scheme rather than individual funds and our focus was on variations of the employer contribution rates over time as a broad measure of long term cost efficiency and sustainability relative to the funding available to local authorities. We are primarily interested in the extent to which contribution rates can vary from current levels as well as the projection of funding levels. Consequently, we have assumed that the current investment policy remains in place and is constant over the projection period.

E.4 Stochastic modelling techniques allow us to simulate one thousand economic scenarios – with different outturns and paths of key parameters and variables. The simulations are calibrated to reflect views on expected returns and relative behaviours between key variables, but importantly include an element of randomness in order to capture volatility observed in financial markets. By running the scenario generator many times, the spread of different possible outcomes can be illustrated, and the probability of certain outcomes can be estimated.

E.5 As with all models, the outcomes are a function of the assumptions adopted, and the outcomes are not intended to be predictors of the future but are illustrations of the range of possible outcomes. It is highly unlikely that the assumptions made will be borne out in practice and adjustments might be made to manage any pressures that arise.

E.6 Our study models change in economic outcomes only – we have not looked at any other possible changes such as demographic changes, including mortality, nor management changes such as changes to the investment approach or the impacts of climate change.

Outcomes of our modelling

E.7 The ALM exercise provides underlying projections, under thousands of scenarios, for a number of key variables and metrics of interest, including:

> The scheme’s assets

> The scheme’s liabilities

> The scheme’s funding level

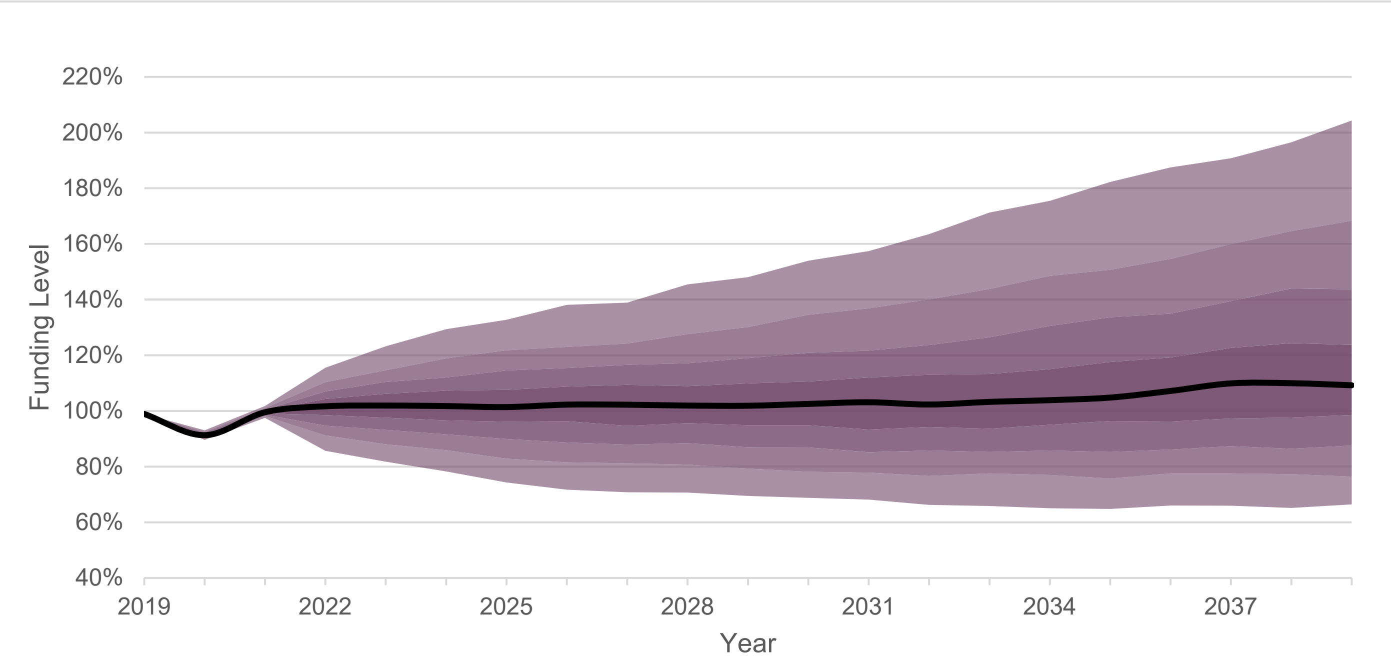
> The contribution rates

E.8 The main report includes illustrations of funding level and contributions (relative to the salary and the level of funding available to local authorities) of the LGPS, as a whole. These illustrations assumed no immediate recovery of assets in 2020/21 as GAD currently hold no information on the extent to which funds have recovered. The illustrations considered the impact with and without a constraint on contribution rates.

E.9 Charts E.1 and E.2 below illustrates the possible impact on funding levels and contribution rates if an allowance was made for the expected recovery of assets for 2020/21 in the projections and assuming that the contributions are not restricted. In the absence of any data available to illustrate the effect of a possible immediate recovery in asset values we have reset the funding level to 100% as at 31 March 2021 in the following analysis.

E.10 In charts E.1 and E.2, the black line shows the median funding level and contribution rate. Each shade of purple represents the range of funding level or contribution for a decile (10%) of scenarios, with the subsequent lighter shade representing the next decile. We have not shown the most extreme deciles (0-10% and 90-100%)

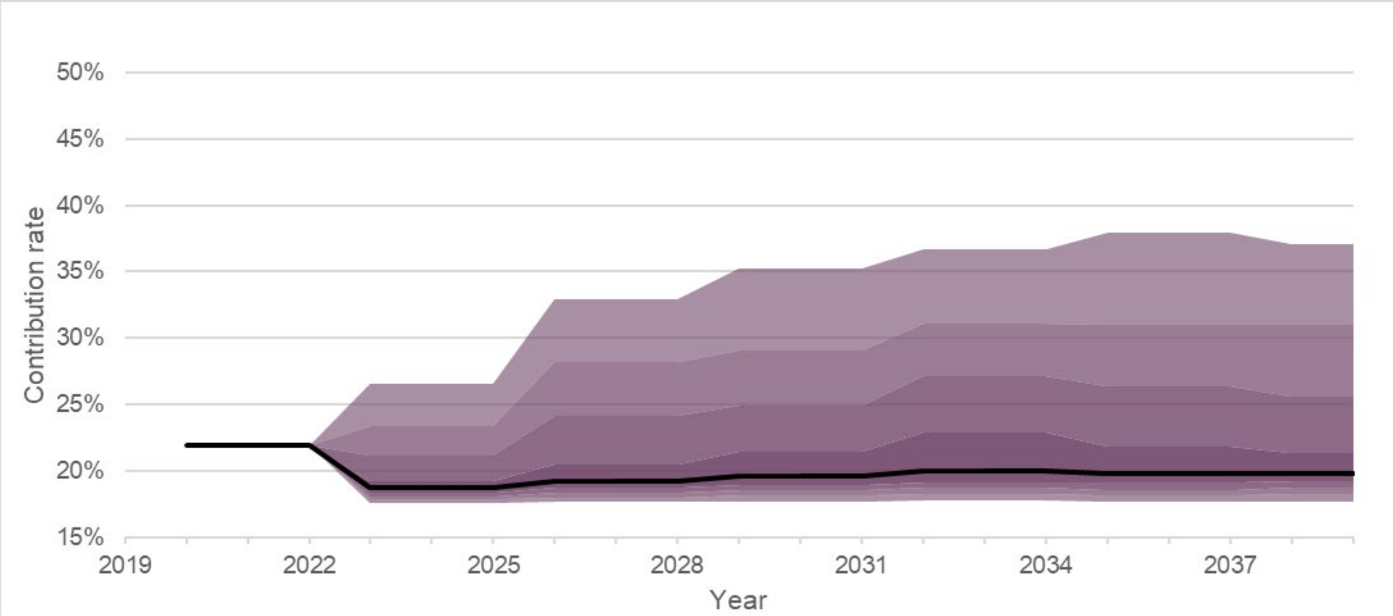
Chart E1: Illustration of funding levels with unconstrained contributions including allowance for expected 2020/21 recovery in assets



E.11 Chart E1 illustrates the initial drop in assets for the 2019/20 scheme year, due to COVID-19. For illustration purposes, we have shown the effect of an immediate recovery in the following year, by setting the scheme to be fully funded as at 31 March 2021 (a better position relative to that at the 2019 valuation).

E.12 The chart shows significant risk still remains as there is around 20% likelihood of the funding being 80% or lower by 2037. The upside is also illustrated in chart E.1, as the likelihood of improved funding is greater than that of chart 6.1, as there is over 30% chance that funding exceeds 140% funding.

Chart E2: Illustration of unconstrained employer contributions including allowance for expected 2020/21 recovery in assets



E.13 Based on the assumption that there is a rebound in asset values in 2020/21, chart E.2 illustrates that the median level of contributions may reduce at the 2022 valuation, due to the improvement in funding relative to the 2019 valuation.

E.14 Chart E.2 also illustrates that the risk to future contributions remain. After the assumed recovery there is around a 20% likelihood that contribution rates could exceed 30% by 2031. However, there is a limited likelihood of a significant reduction in contributions due to the assumption that no reduction is applied to primary contribution rates when the LGPS is in surplus.

Methodology

E.15 Our model projects the entire Scheme and assumes that the asset strategy and future valuation assumptions are an average of those used for the individual funds as at 31 March 2019. In practice, schemes are likely to have specific asset strategies and valuation assumptions, for example the discount rate will have regard to the expected return for each fund.

E.16 Projection of the contribution rates are determined based on the liability and asset values at each future triennial valuation and these are assumed to remain consistent for the following three years.

E.17 To project the development of the scheme we must make assumptions about the following:

> Expected new entrants into the scheme

> The way in which liabilities will evolve – for example, the rate at which current active liabilities “migrate” to being non-active (i.e. deferred/pensioner liabilities) over time or the extent to which liabilities are increased by CPI inflation and wage inflation at each point in time

> The way in which liabilities are assessed, and

> The way in which contributions are determined – both in respect of ongoing accrual and in respect of any surplus or deficit that arises.

The box below provides further details on the assumptions made in respect of these areas.

Key assumptions made in the ALM

For the purpose of assessing liabilities and determining contribution rates, assumptions are needed to carry out an actuarial valuation at each future point in time. In our modelling we have assumed that:

> The discount rate is set based on a constant margin above expected CPI. As such, the extent of the margin above real gilt yields included in the valuation may vary within the projections according to the projected economic conditions.

> The length of the recovery period is reset at each valuation i.e. deficit is spread over a 20 year period. However, when a surplus arises no reduction is applied to the primary rate (the cost of the benefits being accrued)

> New entrants' assumption – the scheme's active membership is assumed to remain stable over time

> The Scheme investment strategy is assumed to remain stable i.e. we assume the assets are rebalanced each year to the same allocation as that in the 2019 valuation.

> Demographic experience is as assumed in the underlying 2019 valuations

E.18 It should be noted that any change to manage down employer contribution rates in the short term do not alter the long term cost of the scheme (which depends on the level of scheme benefits and scheme experience, including asset returns) and more generally might have some other less desirable outcomes, for example:

> increasing the length of recovery periods transfers costs onto future generations

> choosing a more return seeking investment strategy would be expected to increase volatility and risk

Assumptions

E.19 An ALM produces a broader amount of information than a traditional deterministic actuarial valuation. Consequently, we need to make more detailed assumptions to simplify the calculations involved in the projections and make it practical to analyse all the key outcomes we are interested in.

E.20 To project the development of the scheme we must make assumptions about the key economic variable and financial assumptions for example price inflation, salary growth and returns on assets held. These are determined from the economic scenario generator (ESG).

E.21 The ESG is calibrated to current conditions and expectations for the future and specifies how key economic variables may vary (stochastically, according to probability distributions) in future. The ESG was provided by Moody's, with a calibration date of 31 March 2020, and reflected the market expectations at that time.

E.22 GAD made subsequent amendments to the ESG:

> As the calibration was as at 31 March 2020, asset returns for the 2019/20 scheme year were introduced to allow for the known financial outcomes and ensuring that the asset value as at 31 March 2020 are consistent with publicly available SF3 data

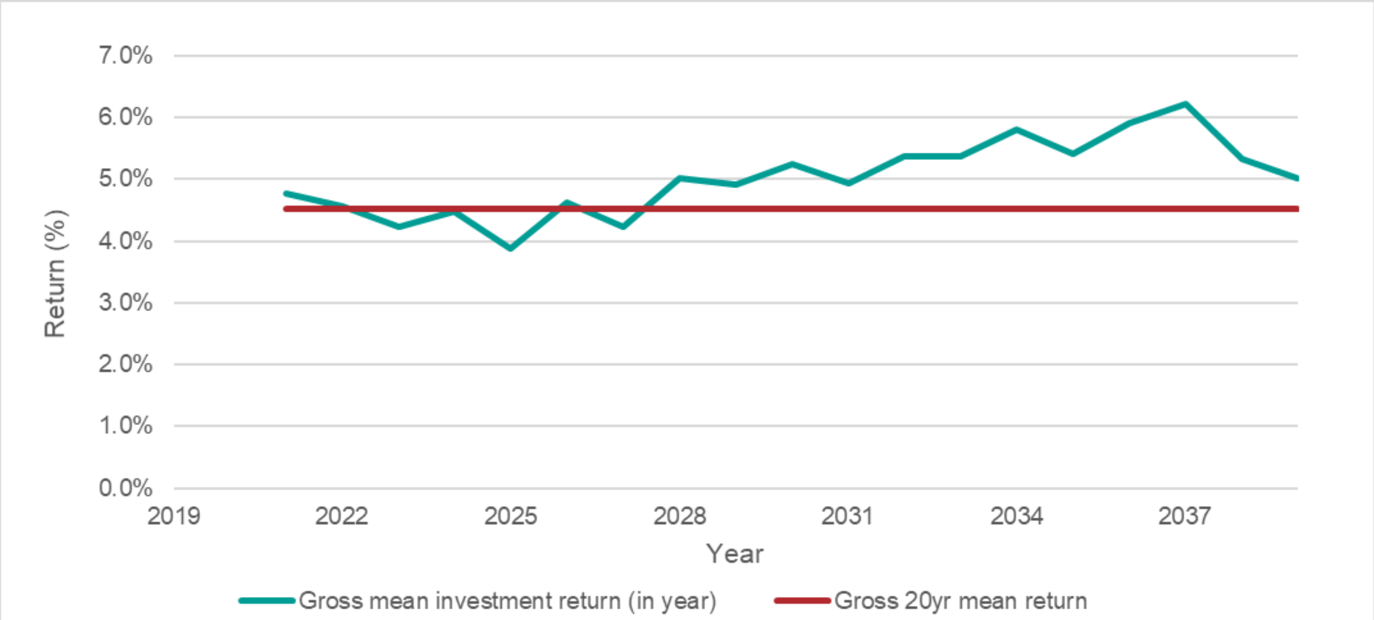
> CPI simulations are derived based on projected RPI simulations less a constant margin. The margin, set at 1.15%, is based on GAD's house view for the current difference between RPI and CPI and is constant throughout the projection period. In practice the difference between RPI and CPI is expected to reduce from 2030 when RPI reforms, however allowing for this would result in a disjoint in CPI projections because market expectations for RPI (which drive simulations) do not show such a disjoint.

> Assumed asset returns were enhanced to align with GAD's long-term views

E.23 Charts E.3 and E.4 illustrate the investment returns used in the ALM projections. The green line in Chart E.3 represents the mean return in each simulation year, and the expectation is that returns improve on average with time.

E.24 The red line in chart E.3. illustrates the annualised mean return over the projection period of the ALM projection, which is 4.5%. The expected return in the ALM is in line with GAD's expectation based on the economic environment as at 31 March 2020.

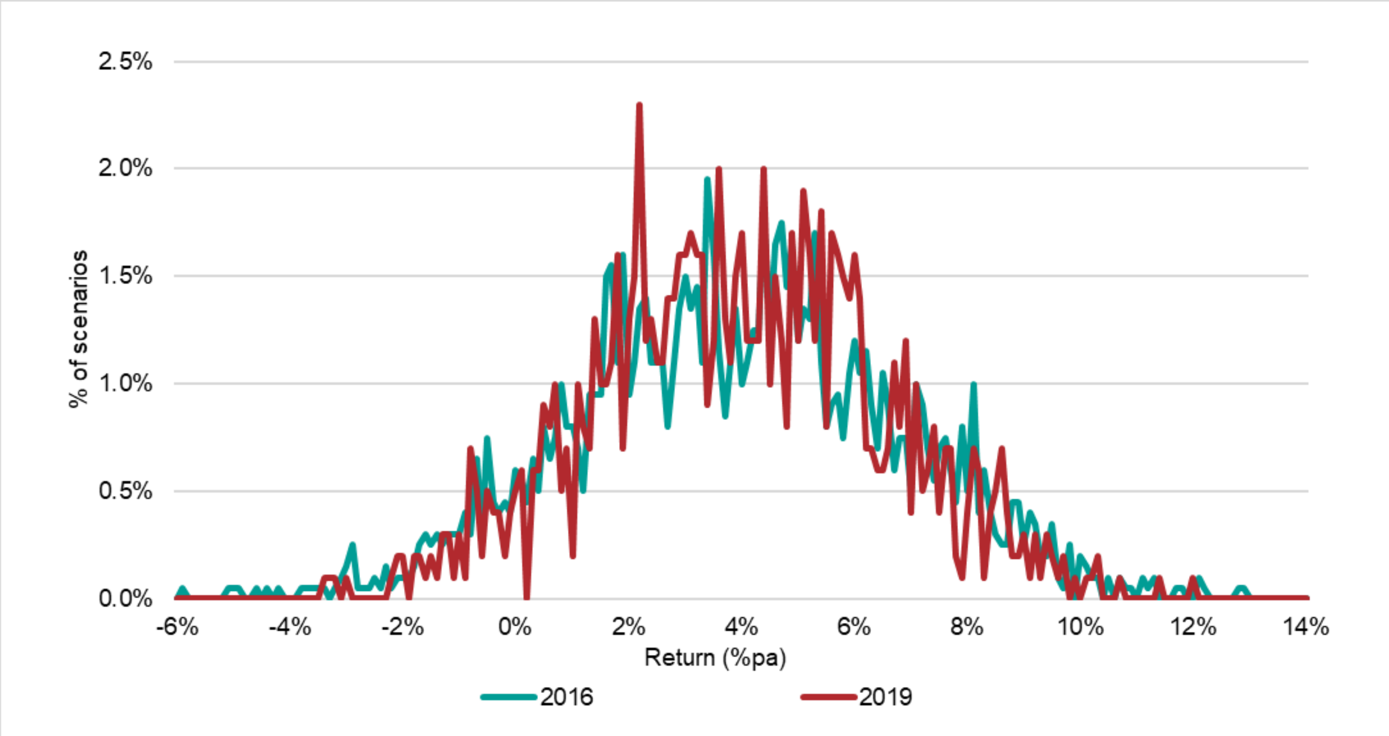
Chart E3: Mean investment return for future years



E.25 Chart E.4 is the distribution of the annualised portfolio returns over the twenty-year period and compares the projection to that of the 2016 ALM exercise. The distributions of the returns are similar, which is expected due to the same investment strategy being adopted at the 2016 and 2019 valuation and similar return prospects.

E.26 Chart E.4 demonstrates the volatility in the LGPS, which was also one of the key risks identified in the investment returns section within the main report. The chart below illustrates that whilst returns are mainly clustered between -2% and 10%, with the mean round 4%, significant risks of low returns over the 20-year period remain but so does the upside potential.

Chart E4: Distribution of annualised nominal investment returns



Appendix F: Data Provided

F.1 At the request of DLUHC, GAD collected data from each fund's 2019 valuation report via the fund actuaries. These actuarial funding valuations were conducted by four firms of actuarial advisors:

> Aon

> Barnett Waddingham

> Hymans Robertson

> Mercer

F.2 Data was received from the relevant firm of actuarial advisors for all 88 pension funds and included additional information provided to the fund actuaries by administrators in respect of their fund's employers.

F.3 Limited checks, consisting of spot checks to make sure that data entries appear sensible, have been performed by GAD and the data received appears to be of sufficient quality for the purpose of analysing the 2019 valuation results. These checks do not represent a full, independent audit of the data supplied. The analysis contained in this report relies on the general completeness and accuracy of the information supplied by the administering authority or their firms of actuarial advisors.

F.4 In addition, data has been collated from the 'Local government pension scheme funds local authority data', which is published annually by DLUHC at Local government pension scheme funds for England and Wales: 2016 to 2017 - GOV.UK (www.gov.uk). This published data may be referred to elsewhere as SF3 statistics.

F.5 Unless otherwise stated the data detailed above has been used to inform the analysis contained in the LGPS England and Wales section 13 2019 Report.

F.6 The information provided to GAD is, in many instances, more detailed than that provided in the actuarial valuation reports.

F.7 There was some inconsistency in the information provided to GAD. For example, membership details were not always split by gender as requested. However, this did not have a material impact on the analysis that GAD was able to complete (we assumed the average male female breakdown for these funds.

Data specification

(1) MEMBERSHIP DATA

Data split by gender.

(a) Active members: number of members, unweighted average age (to 2dp), total rate of annual actual pensionable pay at 31 March 2019 and 31 March 2016 (2014 pay definition)

(b) Deferred members: number of members, unweighted average age (to 2dp), total annual preserved pension revalued to 31 March 2019 for both 31 March 2016 and 31 March 2016. Note this should exclude undecided members.

(c) Pensioners (former members): number of members, unweighted average age (to 2dp), total annual pensions in payment at 31 March 2019 and 31 March 2016.

(d) Pensioners (dependants including partners and children): number of members, average age (weighted as appropriate), total annual pensions in payment at 31 March 2019 and 31 March 2016.

(2) FINANCIAL ASSUMPTIONS

Assumptions used to value the liabilities of the most secure employers (e.g. local authorities)

(a) Specify what proportion of the liabilities is calculated using the assumptions below

(b) Provide assumptions used for past service liabilities, these have been given for both as at 31 March 2019 and 31 March 2016.

i. Nominal discount rate (pre & post retirement separately if applicable)

ii. RPI inflation

iii. CPI inflation rate

iv. Earnings inflation

(c) Provide assumptions used for future contributions, these have been given for both as at 31 March 2019 and 31 March 2016.

i. Nominal discount rate (pre & post retirement separately if applicable)

ii. RPI inflation

iii. CPI inflation rate

iv. Earnings inflation

(d) Short term assumptions used in the valuation (if applicable)

i. CPI

ii. Salary Increases

iii. Discount Rate

(e) Deficit Recovery Period (years)

(3) DEMOGRAPHIC ASSUMPTIONS

Rates to be provided at sample ages split by gender

Each could be split further in Group 1, Group 2, Group 3, Group 4, and Group 5

(a) Assumed life expectancy for members retiring in normal health

i. Pensioner members aged 65 (for members retiring on normal health) (to 2dp) (with mortality improvements)

ii. Pensioner members aged 65 (for members retiring on normal health) (to 2dp) (without mortality improvements)

iii. Active / deferred members at age 65 if they are currently aged 45 (to 2dp) (with mortality improvements)

iv. Active / deferred members at age 65 if they are currently aged 45 (to 2dp) (without mortality improvements)

(b) Commutation

i. Pre 2008 pension Commutation Assumptions (as % of maximum lump sum allowed under HMRC rules). For example, maximum proportion of pension that may be commuted under the 2008 scheme is 35.71%. This will give a lump sum equal to the permitted maximum and thus if the member is assumed to commute this amount of pension, the entry in the table above is 100%. For pre2008 service, members already receive a lump sum = 3/80ths x pre 2008 pensionable service x final pensionable salary. Please specify the pre 2008 assumption as the proportion of the permitted maximum that is expected to be commuted over and above the 3/80ths lump sum.

ii. Post 2008 pension Commutation Assumptions (as % of maximum lump sum allowed under HMRC rules).

(4) ASSETS These are split to provide information for 31 March 2019 and 31 March 2016

(a) Market value of assets

(b) Value of assets used in the valuation

(c) Do you use a smoothed asset value in the valuation? If yes please attach an explanation

(d) Actual Asset Distribution split into the following:

i. Proportion of assets held in Bonds

a) Proportion of bonds which are fixed interest government bonds

b) Proportion of bonds which are fixed interest non-government bonds

c) Proportion of bonds which are inflation linked bonds

ii. Proportion of assets held in Equities

a) Proportion of equities which are UK equities

b) Proportion of equities which are overseas equities

c) Proportion of equities which are unquoted or private equities

iii. Proportion of assets held in Property

iv. Proportion of assets held in Insurance Policies

v. Proportion of assets held in Fully insured annuities

vi. Proportion of assets held in Deferred or immediate fully insured annuities

vii. Proportion of assets held in Hedge funds

viii. Proportion of assets held in Cash and net current assets

ix. Proportion of assets held in Commodities,

x. Proportion of assets held in ABC arrangements

xi. Proportion of assets held in Infrastructure – debt type

xii. Proportion of assets held in Infrastructure* – equity type

xiii. Proportion of assets held in “Other” investments – defensive*

xiv. Proportion of assets held in “Other” investments – return seeking

(e) Weighted best estimate return

(5) LIABILITIES AND FUTURE CONTRIBUTION RATE

These are split to provide information for 31 March 2019 and 31 March 2016

Local assumptions

(a) Past service liability – split between Actives, Deferred, Pensioners and Total

(b) Funding level

(c) Surplus / deficit

(d) Deficit recovery period

(e) Assumed member contribution yield k) Expenses, split by administration and investment (if not included implicitly in discount rate) l) Pensionable Pay definition (2008 or 2014 scheme definition) m)Is a smoothed liability value used? If Yes, an explanation is included ii) SAB standardised basis (only relevant for England and Wales) a) Past service liability – split between Actives, Deferred, Pensioners and Total b) Funding level c) Surplus / deficit d) Deficit recovery period Future contribution rates h) Standard contribution rate i) Contribution rate in respect of surplus or deficit j) Assumed member contribution yield

SAB standardised basis

(a) Past service liability – split between Actives, Deferred, Pensioners and Total

(b) Funding level

(c) Surplus / deficit

(d) SAB future service costs (excluding expenses) %

(6) Deficit recovery plan reconciliation

(a) Deficit contribution expected to be paid over each 3 yearly period from 2016 to 2043 as at March 2019 and March 2016

(b) Present value of deficit contribution expected to be paid over each 3 yearly period from 2016 to 2043 as at March 2019 and March 2016

(7) Post 2014 scheme

(a) Assumption for members in 50/50 scheme (if a proportion of members include details in 7b below)

(b) Proportion of members assumed to be in 50/50 scheme

(8) Documentation required

(a) Valuation Report @ 31 March 2019

(b) Relevant related reports

(c) Compliance Extract

(d) Statement of Investment Strategy

(e) Funding Strategy Statement

(f) Other

(9) McCloud approach

Please note the planned approach to risks arising from the McCloud judgement as discussed in the FSS

ALTERNATIVE FINANCIAL ASSUMPTIONS

Specify where a significant proportion of employer liabilities have been valued using alternative assumptions – provided as above in section 2

Appendix G: Assumptions

G.1 Each section of analysis contained in the main report is based on one of three sets of assumptions:

> The local fund assumptions, as used in the fund's 2019 actuarial valuation

> The SAB standardised set of assumptions, or SAB standard basis

> A best estimate set of assumptions

G.2 Details of local fund assumptions can be found in each fund's actuarial valuation report as at 31 March 2019. Details of the SAB standard basis and the standardised best estimate basis can be found in the table below.

Table G1: SAB standard basis and best estimate basis

Assumption	SAB standard basis	Best Estimate basis
Methodology	Projected Unit Methodology with 1 year control period	Projected Unit Methodology with 1 year control period
Rate of pension increases	2% per annum	2% per annum
Public sector earnings growth	3.5% per annum	3.5% per annum
Discount rate	4.45% per annum	4.3% per annum
Changes to State Pension Age (SPA)	As legislated	As legislated
Pensioner Baseline mortality	Set locally based on Fund experience	As set out in GAD's 2016 valuation
Mortality improvements	Core CMI_2018 with long term reduction in mortality rates of 1.5% per annum	Improvements in line with those underlying the ONS 2018-based principal population projections for the UK
Age retirement	Set locally based on Fund experience	As set out in GAD's 2016 valuation
Ill health retirement rates	Set locally based on Fund experience	As set out in GAD's 2016 valuation
Withdrawal rates	Set locally based on Fund experience	As set out in GAD's 2016 valuation
Death before retirement rates	Set locally based on Fund experience	As set out in GAD's 2016 valuation
Promotional salary scales	None	As set out in GAD's 2016 valuation
Commutation	We have used the SAB future service cost assumption of 65% of the maximum allowable amount	As set out in GAD's 2016 valuation
Family statistics	Set locally based on Fund experience	Set locally based on Fund experience

G.3 The financial assumptions for the best estimate basis are based on GAD’s neutral assumptions for long term inflation measures and asset returns, and the split of LGPS assets held as at 31 March 2019. These neutral assumptions are not deliberately optimistic nor pessimistic and do not incorporate adjustments to reflect any desired outcome. We believe there is around a 50% chance of outcomes being better and a 50% chance of outcomes being worse than these assumptions imply.

G.4 Future asset returns are uncertain and there is a wide range of reasonable views on what future asset returns will be and therefore the best estimate discount rate should be. We have presented GAD’s house view above, but there are other reasonable best estimate bases which may give materially different results.

Appendix H: Section 13 of the Public Service Pensions Act 2013

13 Employer contributions in funded schemes

(1) This section, which can be found at Public Service Pensions Act 2013 (legislation.gov.uk),applies in relation to a scheme under section 1 which is a defined benefits scheme with a pension fund.

(2) Scheme regulations must provide for the rate of employer contributions to be set at an appropriate level to ensure

(a) the solvency of the pension fund, and

(b) the long term cost efficiency of the scheme, so far as relating to the pension fund.

(3) For that purpose, scheme regulations must require actuarial valuations of the pension fund.

(4) Where an actuarial valuation under subsection (3) has taken place, a person appointed by the responsible authority is to report on whether the following aims are achieved

(a) the valuation is in accordance with the scheme regulations

(b) the valuation has been carried out in a way which is not inconsistent with other valuations under subsection (3)

(c) the rate of employer contributions is set as specified in subsection (2).

(5) A report under subsection (4) must be published and a copy must be sent to the scheme manager and (if different) the responsible authority.

(6) If a report under subsection (4) states that, in the view of the person making the report, any of the aims in that subsection has not been achieved

(a) the report may recommend remedial steps

(b) the scheme manager must

i. take such remedial steps as the scheme manager considers appropriate, and

ii. publish details of those steps and the reasons for taking them

(c) the responsible authority may

i. require the scheme manager to report on progress in taking remedial steps

ii. direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.

(7) The person appointed under subsection (4) must, in the view of the responsible authority, be appropriately qualified.

Appendix I: Extracts from other relevant regulations

Regulations 58 and 62 of 'The Local Government Pension Scheme Regulations 201320'

Funding strategy statement (Regulation 58)

(1) An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.

(2) The statement must be published no later than 31st March 2015.

(3) The authority must keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy set out in the statement, and if revisions are made, publish the statement as revised.

(4) In preparing, maintaining and reviewing the statement, the administering authority must have regard to

> (a) the guidance set out in the document published in October 2012 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called "Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme 2012" and
>
> (b) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Actuarial valuations of pension funds (Regulation 62)

(1) An administering authority must obtain

> (a) an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards
>
> (b) a report by an actuary in respect of the valuation, and
>
> (c) a rates and adjustments certificate prepared by an actuary.

(2) Each of those documents must be obtained before the first anniversary of the date ("the valuation date") as at which the valuation is made or such later date as the Secretary of State may agree.

(3) A report under paragraph (1)(b) must contain a statement of the demographic assumptions used in making the valuation and the statement must show how the assumptions relate to the events which have actually occurred in relation to members of the Scheme since the last valuation.

(4) A rates and adjustments certificate is a certificate specifying

> (a) the primary rate of the employer's contribution and
>
> (b) the secondary rate of the employer's contribution,

for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.

(5) The primary rate of an employer's contribution is the amount in respect of the cost of future accruals which, in the actuary's opinion, should be paid to a fund by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who are active members.

(6) The actuary must have regard to-

(a) the existing and prospective liabilities arising from circumstances common to all those bodies

(b) the desirability of maintaining as nearly constant a common rate as possible

(c) the current version of the administering authority's funding strategy mentioned in regulation 58 (funding strategy statements) and

(d) the requirement to secure the solvency of the pension fund and the long term cost efficiency of the Scheme, so far as relating to the pension fund.

(7) The secondary rate of an employer's contributions is any percentage or amount by which, in the actuary's opinion, contributions at the primary rate should, in the case of a Scheme employer, be increased or reduced by reason of any circumstances peculiar to that employer.

(8) A rates and adjustments certificate must contain a statement of the assumptions on which the certificate is given as respects

(a) the number of members who will become entitled to payment of pensions under the provisions of the Scheme and

(b) the amount of the liabilities arising in respect of such members

during the period covered by the certificate.

(9) The administering authority must provide the actuary preparing a valuation or a rates and adjustments certificate with the consolidated revenue account of the fund and such other information as the actuary requests.

Report for:	**Pension Board**
Date of Meeting:	3 March 2022
Subject:	Review of Fund Policies
Responsible Officer:	Dawn Calvert – Director of Finance and Assurance
Exempt:	No
Wards affected:	Not applicable
Enclosures:	Appendix 1 – Draft Training Policy Appendix 2 – Draft Fund Administration Strategy

Section 1 – Summary and Recommendations

This report brings further Fund Policies for review as part of the steps required to ensure that the Fund is ready for the implementation of the Good Governance Review in 2022.

Recommendations:

The Board is recommended to

1. note the report
2. to consider and make recommendations to the Pension Fund Committee in respect of
   a) the Draft Training Policy
   b) and the Draft Fund Administration Strategy.

Section 2 – Report

1. The LGPS "Good Governance Review" began in 2019. Its implementation was delayed by the Covid-19 pandemic, but early in 2021 the LGPS Scheme Advisory Board (SAB) published a Phase 3 Report – this is now with the Government (DLUHC) for implementation. Before the Pension Fund

Committee's meeting on 24th June 2021, Ian Colvin of Hymans Robertson (who as well as being the Harrow Fund's actuaries, also advised the SAB during the Review) led a training session on this subject. In that session the Committee was advised of the key issues arising from the Review.

2. At its meeting on 13th September 2021, the Committee considered and approved the approach to ensuring that Harrow is ready for the Review's implementation in 2022. It was approved that the Pension Board be asked to review the drafts and comment / make recommendations to the Committee regarding the adoption of the policies.

3. At its last meeting, the Board considered the draft Conflicts of Interest Policy and the draft Breaches Policy and made several comments and suggestions. These have been reflected in the latest drafts of those policies, which will be considered by the Pension Fund Committee at its meeting on 9 March 2022.

4. Attached to this report are two further draft policies for consideration and comment, as follows:
    - Training Policy – Appendix 1
    - Fund Administration Strategy – Appendix 2

5. As previously agreed, these are based upon template policies produced by Hymans Robertson, and incorporating specific good practice as appropriate from other LGPS Funds. A brief summary of each is included below.

Training Policy

6. This Policy sets out approach to ensuring that the various people involved in managing and making decisions in respect of the Harrow Pension Fund (officers, Committee members and Board members) have the appropriate and relevant knowledge and skills to carry out their roles and functions effectively.

7. One aspect which may be of particular importance in 2022 is the induction and training of new Committee members. Local elections take place in May 2022. Should there be new members appointed to the Committee, they will need to be brought up to speed.

Fund Administration Strategy

8. It is considered best practice for all funds to have an Administration Strategy. This document sets out the roles and deadlines to which all parties have to work, performance standards for LBH as the administering authority for the Fund, a summary of our approach to communications (linked to the Communications Policy approved in 2021) and a summary of costs which will be recovered from employers.

9. Importantly the document highlights how the various parties involved (the administering authority, employers, scheme members and actuaries work together to deliver a good quality service.

10. The Board should note that in some cases the target times are not currently being achieved – there are two main reasons for this. Firstly, there

has been some turnover within the team, and new staff members are being trained and “brought up to speed”. Secondly, workload is currently higher than normal. One factor in this has been that at Harrow, in common with many LGPS funds, it appears that the Covid-19 pandemic has triggered a significant number of retirement estimate requests from older active members.

Next steps

11. The Board’s comments and suggestions on these policies will be reported to the Pension Fund Committee as it considers approval of these policies at its meeting on 9 March 2022.

Legal Implications

12. There are no direct legal implications arising from this report.

13. The terms of reference for the Board include assisting the Administering Authority (London Borough of Harrow) as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme.

Financial Implications

14. Whilst the financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council’s priorities there are no impacts arising directly from this report.

Risk Management Implications

15. The Pension Fund’s Risk Register is reviewed regularly by both the Pension Fund Committee and by the Board. The next review by the Committee is on 9 March 2022.

16. There are no specific risk management implications arising from this report. The level of risk to which its investments are exposed is a key component in developing the Fund’s investment strategy.

Equalities implications / Public Sector Equality Duty

17. Was an Equality Impact Assessment carried out? No
There are no direct equalities implications arising from this report.

Council Priorities

18. The performance of the Pension Fund directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Statutory Officer: Dawn Calvert
Signed by the Chief Financial Officer

Date: 09/02/2022

Statutory Officer: Sharon Clarke
Signed on behalf of the Monitoring Officer

Date: 09/02/2022

Chief Officer: Charlie Stewart
Signed by the Corporate Director

Date: 09/02/2022

Mandatory Checks

Ward Councillors notified: Not applicable

Section 4 - Contact Details and Background Papers

Contact: Jeremy Randall – Interim Pensions Manager
Email: Jeremy.randall@harrow.gov.uk
Telephone 020 8736 6552

Background Papers: None

London Borough of Harrow Pension Fund

Draft Training Policy

March 2022

Pension Fund Training Policy

Introduction

1. This is the Training Policy of the London Borough of Harrow Pension Fund, which is managed and administered by the London Borough of Harrow.

2. The Training Policy is established to support all those charged with the governance and administration of the Pension Fund in having sufficient knowledge and understanding to ensure that all decisions, actions and other activities are carried out in an informed and appropriate way. This means that advice and guidance from external bodies can be challenged and tested appropriately and that the Fund's operational and strategic direction is in accordance with best practice and guidance. The Training Policy has the ultimate aim of ensuring that the London Borough of Harrow Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills.

3. The purpose of the training policy is to:
    - Equip members and officers with the necessary skills and knowledge to be competent in their role.
    - Provide those with responsibility for governing the Fund to evaluate the information they receive and effectively challenge it where appropriate.
    - Support effective and robust decision making.
    - Meet the required needs in relation to the Fund's objectives.

4. It is important that members of the Pension Fund Committee, the Local Pensions Board and Fund Officers commit to participating in appropriate training events to ensure that they have the necessary skills required to support them in their decision-making role.

5. This policy has been approved by the Pension Fund Committee at its meeting in March 2022 and will be reviewed annually.

Policy Application

6. This Training Policy applies to all individuals that take on a decision making, scrutiny or oversight role in the Fund. This includes:
    - Officers of the administering authority involved in the management and administration of the Fund
    - Members of the Pension Fund Committee
    - Members of the Pension Board

Policy Objectives

7. In relation to training, the Administering Authority's objectives are to ensure that:
    - Those persons charged with the financial management and decision-making with regard to the LGPS Fund are fully equipped with the knowledge and skills required to discharge the duties and responsibilities allocated to them;

- Those persons responsible for the day-to-day administration and running of the Fund are appropriately equipped with the knowledge and skills required to discharge their duties and responsibilities in relation to the Fund;
- Those persons responsible for providing governance and assurance of the Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, to ensure their decisions are robust and soundly based, and to manage any potential conflicts of interest.

8. All Members and Officers to whom this Policy applies are expected to continually demonstrate their own personal commitment to training and to ensure that these objectives are met.

9. To achieve these objectives, the Fund will have regard to the following publications:
    - CIPFA Technical Knowledge and Skills Framework for Local Pension Boards;
    - CIPFA Knowledge and Skills Framework;
    - Public Service Pensions Act 2013
    - The Pensions Regulator's (TPR) Codes of Practice for Public Service Schemes.
    - Local Government Pension Scheme (LGPS) Pension Board Guidance

10. The London Borough of Harrow Council fully supports the use of the CIPFA Knowledge and Skills Frameworks, and the Pension Regulator’s Codes of Practice. These documents will form the basis of the training strategy using a rolling training plan together with regular monitoring and reporting.

Pension Board

11. In accordance with Regulation Section 248A of the Pensions Act 2004 and redrafted by the Pensions Act 2013, every member of the London Borough of Harrow Local Pension Board must be conversant with:
    - The rules of the Local Government Pension Scheme (LGPS), such as the Transitional Regulations and the Investment regulations.
    - Any document recording policy about the administration of the Harrow Pension Fund which is for the time being adopted in relation to the Harrow Pension Fund.

12. Local Pension Board members should also have knowledge and understanding of:
    - The law relating to pensions
    - Such other matters as may be prescribed.
    - Public Sector Toolkit by the Pensions Regulator (TPR) as part of the online TPR Trustee Toolkit

13. Although the toolkit is designed with Board members in mind, the material covered is of equal relevance to members of the Committee and Fund Officers. The Pension Regulator website is available at: https://trusteetoolkit.thepensionsregulator.gov.uk/

Markets in Financial Instruments Directive II (MIFID II)

14. Harrow Pension Fund needs to demonstrate a high level of skills and knowledge across the Pension Fund Committee and Local Board to enable the Fund to opt-up and be recognised as a professional investor rather than a retail investor to continue to receive advice and access to investment products at a level commensurate with the types of investment required for the Fund. Failure to demonstrate adequately a high level of collective skills and knowledge across the Pension Fund Committee and Local Pension Board could result in the loss of professional investor status and therefore access to the appropriate investment opportunities.

Areas of Knowledge and Skills Required

15. All Committee, Local Pension Board members and Officers must have a knowledge and understanding of the law relating to pensions (and any other matters prescribed in legislation) to a degree appropriate for them to be able to carry out their role, responsibilities and duties.

16. The core requirements for those working in public sector pensions are:
    - Pensions Legislation - To have a working knowledge of the Local Government Pension Scheme regulatory and legislative frameworks and discretionary policies.
    - Public Sector Pensions Governance - To understand elements of the governance structure, including the role of the Local Pension Board.
    - Pensions Administration - To understand the requirements of the scheme's interactions with members in this complex area and assist the Scheme Manager to ensure compliance with the regulations.
    - Pensions Accounting and Auditing Standards - To understand the way pension funds are accounted for and the audit and reporting requirements.
    - Pensions Services Procurement and Relationship Management - To gain an understanding of the procurement rules for the public sector and the different delivery models available for pension fund investment and administration services.
    - Investment Performance and Risk Management - To gain an understanding of investment risks and performance.
    - Financial Markets and Product Knowledge - To understand how the Fund manages its investment portfolio, to ensure that this is done effectively.
    - Actuarial Methods, Standards and Practices - To understand the work of the Actuary and the way in which actuarial information is produced.

Training Plan

17. To be effective, training must be recognised as a continual process and will be centred on 3 key points
    - The collective knowledge of the committee
    - The general pensions environment
    - Coping with changes (e.g. legislation)

18. On joining the fund committee or Local Board, induction will be provided. This will involve covering their roles and responsibilities to allow them to participate in decision making. This will include provision of links to contain key documents relevant to the Fund (for example the Funding Strategy Statement; the Investment

Strategy Statement) and other useful information. Training plans will be developed on an annual basis.

19. There will be updates as required taking account of the identification of any knowledge gaps, changes in legislation, key legislation (e.g. triennial valuation) and receipt of updated guidance.

20. Training will also be provided to support and in advance of any key decisions required, where applicable.

21. Training will be delivered through a variety of methods including:
    - In-house training provided by Officers or external trainers;
    - Training as part of a formal meeting;
    - External training events;
    - Circulation of reading material;
    - Shared training with other Funds or frameworks;
    - Attendance at seminars and conferences;
    - On-line training toolkit provided by the Pensions Regulator; and
    - Self-improvement and familiarisation with regulations and documents.

22. Where appropriate, training will be provided jointly for the Pension Fund Committee, and Local Pensions Board members and Officers.

23. A training schedule will be developed by Officers in consultation with the Pension Fund Committee and Local Pensions Board to achieve the following:
    - maintain a general awareness to ensure members have an ongoing understanding and knowledge of developments and current issues in the pensions' arena;
    - training is delivered to ensure appropriately timed training is provided in relation to "hot topics"; and
    - individual and collective training needs are assessed and delivered.

24. In order to identify whether the objectives of this Training Policy are being met, the Administering Authority will maintain a Training Log which records any training delivered, as well as the attendance of Pension Fund Committee and Local Pension Board members at training events and learning activities.

Key risks

25. The key risks to the delivery of this Policy are outlined below. The pension fund committee members, with the assistance of the Pension Board and Officers, will monitor these and other key risks and consider how to respond to them.
    - Changes to the committee and/or pension board membership and/or officers potentially diminishing knowledge and understanding.
    - Poor attendance and/or a lack of engagement at training and/or formal meetings by committee members, pension board members and/or other officers resulting in a poor standard of decision making, administration and/or monitoring.
    - Insufficient resources being available to deliver or arrange the required training.
    - The quality of advice or training provided is not of an acceptable standard.

Reporting

26. A report will be presented to the Pension Fund Committee and the Local Pension Board on an annual basis setting out:
    - the training provided/attended in the previous year at an individual level;
    - commentary on how this compares to the Training Plan; and
    - any actions required, such as a review of the Training Plan.

    This information will also be included in the Fund's Annual Report and Accounts.

Costs

27. All training costs will be met directly by the Pension Fund but are not expected to be a significant part of the budget of the Fund with some training being provided free by officers or by external providers.

Effective date

28. This Policy was approved by the LB Harrow Pension Fund Committee on 9 March 2022.

Review

29. This policy is expected to be appropriate for the long term but will be reviewed each year alongside the draft annual training plan to ensure it remains accurate and relevant.

London Borough of Harrow Pension Fund

Draft Pensions Administration Strategy

March 2022

Introduction

1. The pensions administration strategy ("the strategy") sets out the responsibilities of the administering authority and scheme employers in administering the LGPS. The role of administering authority for the London borough of Harrow Pension Fund is discharged by Harrow Council – The Treasury and Pensions team. The Council's HR service provides the pensioner payroll.

2. The strategy has been created pursuant to regulation 59 of the Local Government Pension Scheme Regulations 2013 and will be reviewed at least every three years.

3. There are four sections of the strategy and those are:
   - Roles and deadlines of all parties
   - Administering authority's performance standards
   - A statement about scheme communications
   - Scope of additional costs that will be recovered from scheme employers

Roles and deadlines

4. Each of the parties to the LGPS has specific roles and responsibilities. It is important that this is clear to ensure we all discharge them fully.

   References to Regulations refer to the Local Government Pension Scheme (LGPS) Regulations 2013 unless otherwise stated.

   If a stated deadline falls on a weekend or bank holiday then the deadline is the working day immediately prior.

Role	Deadline
Administering Authority	
Appoint a fund actuary, investment consultants, advisors, custodians and fund managers	As required
Lead and publish the triennial valuation (as at 31st March 2022 and on 31st March in every third year afterwards) and annual summary valuation pursuant to regulation 62	Every three years and annually
Publish the audited fund annual accounts pursuant to regulation 56	Annually

Publish a pension fund annual report pursuant to regulation 57	Annually
Publish a funding strategy statement pursuant to regulation 58	At least every three years
At least every three years Publish an investment strategy statement pursuant to regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016	At least every three years
Publish a governance compliance statement pursuant to regulation 55	At least every three years
Produce the business strategy for the fund	Every three years
Support the Pension Fund Committee and the Pension Board	Quarterly
Maintain the Fund risk register	Quarterly
Manage Fund cash and bank accounts	As required
Monitor fund investments and performance reporting	At Least Quarterly
Complete the SF3 and other investment returns	Annually and as required
Complete the quarterly Office for National Statistics financial survey of pension schemes	Quarterly
Monitor the financial strength of scheme employers	Annually
Sign off admission agreement terms regarding the financial arrangements between the parties	As Required

Pensions Administration Team	
Publish annual benefit statements to all active and deferred members	Annually by 31 August
Publish pensions saving statements to scheme members that may have breached their annual and/or lifetime allowances	Annually by 6 October
Set up and amend admission agreements for admitted bodies	As soon as practicable
Manage the internal dispute resolution procedure	In accordance with the procedure
Apply the annual pensions increase as directed by HM Treasury	April pensioner payroll cut-off
Submit a quarterly tax return to HM Treasury and pay the required tax charges	14th day of the second month following the end of the relevant period
Maintain a membership database	Not applicable
Undertake an annual data review and complete The Pension Regulator scheme return notice	November, as directed by The Pension Regulator
Process tasks in accordance with the performance standards	See table below
Maintain a ‘breaches of law’ register and notify The Pension Regulator of any materially significant breaches, which may result from: ● A failure to issue annual benefit statements or pension savings statements in time ● Errors and omissions identified by the internal dispute resolution procedure	As soon as practicable

• Scheme employers failing to pay contributions on time or accurately • Other breaches of a legal requirement	
Provide information and manage the production of admission, cessation and IAS19/FRS102 (financial statement) reports via the fund actuary and share with those reports with scheme employers	As required
HR / Payroll Team	
Pay pensioners their monthly LGPS benefits	25th day of the month (or the Friday before if 25th falls at a weekend).
Issue pension payslips in March, April and if the net monthly pension changes by £5 or more	Issued on the relevant pay date.
Scheme Employers	
Submit the monthly contributions return in the required format	19th day of the month after which the deductions are made
Pay the monthly contributions to the fund pursuant to the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014	Payment received by 19th day of the month after which the deductions are made
Submit an annual return in the required format	7th May
Calculate and pay redundancy and/or severance payments	As soon as practicable
Provide the data required for FRS17 (retirement benefits) calculations if requested	20 working days prior to the accounting date (ie 31st March, 31st July, 31st August etc).
Provide any additional data required for interim and/or cessation valuations	As soon as practicable

Publish a statement of policy about the exercise of discretionary functions pursuant to regulation 60	Within six months of becoming a scheme employer
Calculate pensionable pay and determine a scheme member's final pay, when required	As required
Admit its employees into LGPS	By their starting date or auto enrolment date
Inform Harrow Pensions Team about new scheme members, members leaving the scheme, or changes to employment (working hours, unpaid leave, unauthorised absences, reductions in pay and 50/50 scheme elections) using the required form or template	20 working days after their starting date, leaving date or date of the change
Give notice of a scheme member's intention to retire	20 working days prior to the intended retirement date
Make the first instance decision about an ill-health retirement following receipt of the independent registered medical practitioner's report	As soon as practicable (Employers must nominate an adjudicator to deal with appeals at stage one of the IDRP where the dispute is against a decision the employer has made or is responsible for making. Employers are responsible for providing details of the IDRP and the adjudicator in writing to members when informing them of decisions they have made.)
Respond to general queries from the administering authority	10 working days
Respond to errors or missing information identified by the administering authority	20 working days or sooner if required
Pay invoices for any recoverable additional costs	30 calendar days from the invoice date

Inform the Fund regarding a notifiable event which may trigger the requirements for a contribution review between triennial valuations. Such triggers may include (though not limited to): • A material change to LGPS membership • A material change in total employer payroll and LGPS pensionable Pay • A change in employer legal status or constitution • Restructuring where there is a significant impact on LGPS membership • A decision to cease business • A decision that will restrict future active membership of the LGPS	Inform the Fund well in advance of the event taking place
Commence the deduction of additional contributions (APCs or AVCs) following an election from the scheme member or instruction from the administering authority	As soon as practicable
Provide a breakdown of AVC contributions for reconciliation against payment	By no later than 19th of the following month but preferably at the time of making the payment.
Notify the Fund of the contracting out of services which will involve a TUPE transfer of staff to another organisation so that information can be provided to assist in the decision	Where possible, three months prior but at the latest the point of deciding to tender.
Fund Actuary	
Undertake the triennial valuation (including the recommended contribution schedules) and provide quarterly updated summary valuations	Every 3 years (next due 2022) and quarterly respectively
Produce admission, cessation, conversion and IAS19/FRS102 (financial statement) reports	As required

Performance standards for processing tasks

5. The service target is the pensions administration team's target but in order to meet the overall process targets it will need to rely on other parties acting promptly. The targets have been set after accounting for any legal requirements and to achieve a suitable service level for scheme members.

Process	Service Target	Overall Process Target	Legal Deadline
Send a notification of joining the LGPS to a scheme member	20 working days from receipt of all information	40 working days from date of joining	Two months from date of joining the scheme
Inform a scheme member who left the scheme of their calculated benefits (refund or deferred)	30 working days from receipt of all information	40 working days from date of leaving	No more than two months from date of initial notification
Request transfer details for transfer in (including interfunds)	5 working days from receipt of the request	40 working days from member's initial request	Two months from the date of request
Calculate and provide transfer in (including interfunds) quotation to scheme member	15 working days from receipt of all information		
Provide details of transfer value (including interfunds) for transfer out or divorce proceedings	20 working days from receipt of all information	60 working days from date of request	Three months from date of request
Notify a scheme member of their final retirement benefits	10 working days from receipt of all information	20 working days from date of retirement	One month from date of retirement if on or after normal pension age or two months from date of

			retirement if before normal pension age
Request financial information for retirement from scheme employer’s payroll provider	10 working days from date of request	40 working days from date of request	No more than two months from date of request unless there has already been a request in the last 12 months
Provide a retirement quotation (limited to once per 12 month period)	20 working days from receipt of all information		
Calculate and notify dependant(s) of their amount of death benefits	10 working days from receipt of all information	40 working days from date of death	No more than two months from date of becoming aware of death
Pay contribution refund to scheme member following their election	10 working days from receipt of all information	20 working days from date of request	Not applicable
Answer general correspondence	10 working days from receipt of correspondence	Not applicable	

Communication statement

6. This statement confirms the procedures used for communication and information sharing between the various LGPS parties, including scheme members and their representatives, prospective members, and scheme members. It is required by regulation 61. The Pension Fund Committee has already approved its Communications Policy, and this section should be read in conjunction with that document which can be found on the Harrow Pension Fund website at https://www.harrowpensionfund.org/resources/communications-policy-statement-march-2021/

7. There are certain key principles that form the basis of approach to communication. They are:
    - Digital first communication but alternative methods as required
    - Using plain language to help parties to make informed decisions

Provision of information and publicity about the scheme

8. The policy will set out the channels of communication that will be communicated and their frequency. It will include an engagement plan that will include events for employers, members of the scheme and prospective members of the scheme.

9. We are committed to using technology to enhance services, improve accessibility and broaden inclusion. This includes the use of email where possible. We are developing our use of digital communication and intend to implement “self service” options for scheme members and scheme employers through a secure portal, towards the end of 2022. Pensions Online,

10. Wherever possible, we will use a digital first means of communication, however, we recognise that individuals may have specific needs with regards to the format or language of our communication. As such, reasonable alternative material will always be made available on request.

11. Annual benefit statements are currently sent to active and deferred members by post. We will explore the possibility of moving this to availability via on line access once “member self service” is available.

12. We shall maintain the service's web pages on the Harrow Pension Fund website to provide information about the LGPS. The contents shall be reviewed at least twice per year. This is where we will publish the key scheme documents, such as the annual accounts. The web pages will not duplicate the core scheme information found on the LGPS website but rather link to it where possible and only add information that is specific to the Harrow Pension Fund.

13. When it is prudent to share scheme updates to scheme members, these messages will be added to the council websites. In addition, we will ask every scheme employer to cascade such messages to its active scheme members. If it is relevant to share the message with deferred or retired scheme members, we will circulate it using the most appropriate method. These updates may include changes to the scheme regulations.

14. During an actuarial valuation year, we shall hold meetings with scheme employers and the fund actuary to discuss the results and implications of the valuation and other actuarial matters.

15. The LGPS and other pension schemes can prove confusing to its members. As such, all communication sent by us will be written using plain language where possible and where not, will include suitable definitions.

16. The fund’s governance arrangements include the Pension Fund Committee and the Pension Board, both of which receive reports from the administering authority. These reports are presented by officers and will include general updates and specific recommendations for decisions where the power to decide them has not been delegated to officers.

Forms and templates for scheme employers

Forms

17. Scheme employers need to submit information in accordance with specific requirements to support the efficient administration of the LGPS. The following forms must be used and can be found on the council websites:
    - Notification of joining employee (LG2)
    - Notification of leaving employee (LG3)
    - Notification of an employment change (LG4)
    - Notification of changes to multiple post employee (LG5)

Templates

18. In some situations, often due to a scheme employer's payroll provider, it is not always possible to use specific templates. As such, our templates are optional and scheme employers can choose to use their own format. However, the returns must still contain all of the fields found in our template. The following templates can be found on the council websites:
    - Monthly contributions return (LG1)
    - Annual return
    - BDI return for bulk notification of joining employees

Sharing information with external bodies

19. From time to time the administering authority shall share scheme member and scheme employer information with the following external bodies:
    - Cabinet Office
    - Department for Levelling Up, Housing and Communities
    - Department for Work & Pensions
    - Government Actuary's Department
    - HM Revenue & Customs
    - Local Government Association
    - The fund actuary (Hymans Robertson LLP)
    - The external auditor (Mazars LLP)
    - The member data service provider (Heywoods)

Recoverable additional costs

20. The standard cost of administering the fund is factored into the contribution rates but there are circumstances that will require the recovery of additional costs.

21. Any such costs will be monitored by the administering authority and the relevant party will be invoiced for payment, either annually or on an ad-hoc basis depending on the type of cost.

Performance penalties

22. This type of recovery is dealt with according to regulation 70, which allows the administering authority to levy such charges on account of a scheme employer's unsatisfactory performance in carrying out its functions. These recoveries are required as a penalty to ensure the smooth running of the LGPS.

23. Any such recovery should be avoided where possible and scheme employers should seek advice from the administering authority if they experience any difficulties. The administering authority will not seek a recovery if there has been early engagement and suitable effort to comply. In the event that a recovery is required, the administering authority will provide the scheme employer with a written notice.

24. The penalties will be calculated as follows:

Unsatisfactory performance	**Threshold Charge**
Late submission of joiner or leaver form	£50 per month
High quantity of starters and leavers notified in annual return More than 5% of scheme employer's active membership	£250 plus any other applicable charges
Late submission of annual return	£250 plus £50 per working day
Late submission of monthly contributions return	£125 plus £25 per working day
Poor quality of data in annual return or failure to provide information in the required format - more than 5% of data lines requiring amendment or deletion	Additional time spent to resolve at £125 per half day
Regulator fines as a result of scheme employer's action or inaction	The fine amount plus £100
Any other significant work the Fund is required to carry out in order to rectify errors caused a result of employer error	The Fund will recover the cost for the work involved based on officer hourly rates.

Actuarial and other fees

25. Any requests for advice or work that is outside of the requirements of an administering authority as defined by the LGPS regulations will be recoverable from the relevant scheme employer or scheme member. This may include:
    - Legal advice concerning admission or cessation
    - Accounting valuation reports (FRS102, etc)
    - Site visits or seminars

26. Such recoveries will recharge the cost incurred from the third party provider with no uplift or administration fee. If the work is to be undertaken by the administering authority itself, the fees will be agreed with the scheme employer or scheme member before work commences.

Interest on late payments

27. According to regulation 71, scheme employers are liable for interest on late payments including contributions and performance penalties. Interest will be charged according to this regulation on any overdue amounts. In addition, there will be a £100 charge for the administration of such action.

Divorce proceedings

28. Scheme members shall be liable for the administration costs of implementing a pension sharing order or other order related to divorce proceedings. The charge for this work is fixed at £500.

Strain costs

29. Pension strain costs or capital costs can occur in a number of situations. Depending on the situation, the scheme employer may be liable for the costs or the costs will be paid from the pension fund (the employer contribution rates include an element to cover these risks). The typical situations are as follows:
    - Death - costs paid from pension fund
    - Ill-health retirement - costs paid from pension fund
    - Redundancy of an employee over the age of 55 - costs paid by scheme employer
    - Retirement of an employee over the age of 55 on grounds of efficiency or where the scheme employer chooses to waive the actuarial reduction that would otherwise apply - costs paid by scheme employer

30. Essentially, if the scheme employer controls when the costs occur (i.e. it chooses to do something) then they are liable for the costs. If it is out of their control the pension fund pays.

Report for:	**Pension Board**
Date of Meeting:	3 March 2022
Subject:	Pension Board Work Programme For Future Meetings
Responsible Officer:	Dawn Calvert – Director of Finance and Assurance
Exempt:	No
Wards affected:	Not Applicable
Enclosures:	None

Section 1 – Summary and Recommendations

This report reviews the Pension Board's work to date, lists the forthcoming meeting dates and invites the Board to comment on a suggested work programme for the 2022-23 Municipal Year.

Recommendations:
The Board is requested to note the dates of the meetings for 2022-23 and to comment on the proposed work programme.

Section 2 – Report

1. The Pension Board meets quarterly. This is the Board's final meeting of the 2021-22 municipal year.

2. A suggested work programme for 2022-23 is shown in the table below. Further items will be added as required.

Matter for Consideration	Board Meeting
Items for consideration at each meeting (all years)	
Pensions Administration – Performance monitoring	Quarterly report – to include updates on McCloud and Exit Cap and Scheme Advisory Board
Pension Fund Dashboard including Long term cashflow and funding	Quarterly report - Considered in review of PF Committee minutes quarterly
Latest Pension Fund Committee Meeting - Summary of Reports and actions	Quarterly report
2022-23 Items	
Pension Fund Risk Register Review	June 2022
Annual Report and Financial Statements for year ended 31 March 2022	June 2022 – draft PF Accounts and Annual Report December 2022 – to review the external auditor's report on the accounts.
Regulatory Updates	Ad hoc – as changes occur. Two items expected are - Revised LGPS Regulations for implementing McCloud - A consultation paper about LGPS Investment (covering climate risk, pooling and the "Levelling Up White Paper".
Review of Fund Policies	Continuing to Prepare for the implementation of the Good Governance Review - Representations Policy
Triennial valuation 2022	Progress updates at each meeting - Assumptions June 2022 - Funding Strategy Statement September 2022 - Initial results – December 2022 - Final report – March 2023

3. For Board members' information, the date of the remaining meeting of the Pension Fund Committee in this municipal year is Wednesday 9th March 2022 at 6.30pm. All Board members are welcome to attend part 1 of the meeting. The meeting will be held in "hybrid" format.

4. At the time of writing this report, dates for meetings of the Board and of the Pension Fund Committee for 2022-23 have not yet been formally agreed. However, provisional dates are as follows:

- Pension Board
    - 7 July 2022
    - 6 October 2022
    - 1 December 2022
    - 2 March 2023

- Pension Fund Committee
    - 23 June 2022
    - 20 September 2022
    - 15 November 2022
    - 22 March 2023

Legal Implications

5. There are no direct legal implications arising from this report.

6. The terms of reference for the Board include assisting the Administering Authority (London Borough of Harrow) as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme.

Financial Implications

7. Whilst the performance and effective controls of the fund managers is of paramount importance in the performance of the Pension Fund, there are no financial implications arising from this report.

Risk Management Implications

8. The Pension Fund's Risk Register is reviewed regularly by both the Pension Fund Committee and by the Board. The next review is elsewhere on the agenda for this meeting.

9. There are no specific risk management implications arising from this report. The level of risk to which its investments are exposed is a key component in developing the Fund's investment strategy.

Equalities implications / Public Sector Equality Duty

10. Was an Equality Impact Assessment carried out? No

11. There are no direct equalities implications arising from this report.

Council Priorities

12. The performance of the Pension Fund directly affects the level of employer contribution which then, in turn, affects the resources available for the Council’s priorities.

Section 3 - Statutory Officer Clearance

Statutory Officer: Dawn Calvert
Signed by the Chief Financial Officer
Date: 09/02/2022

Statutory Officer: Sharon Clarke
Signed on behalf of the Monitoring Officer
Date: 09/02/2022

Chief Officer: Charlie Stewart
Signed by the Corporate Director
Date: 09/02/2022

Mandatory Checks

Ward Councillors notified: Not Applicable

Section 4 - Contact Details and Background Papers

Contact: Jeremy Randall – Interim Pensions Manager
Email: Jeremy.randall@harrow.gov.uk
Telephone: 020 8736 6552

Background Papers: None