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London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 31 March 2022

Subject:	**GAD Section 13 Valuation Results based on 31 March 2019 LGPS Triennial Valuation**
Cabinet Member:	**Cllr Maguire**
Executive Director:	**Fay Hammond**
Key Decision:	**[ ]**

Purpose of Report

1. This report provides Members with information on the Section 13 analysis completed by the Government Actuary's Department (GAD) using the 2019 valuations.

2. The purpose of Section 13 of the Public Service Pensions Act 2013 was to consider issues of compliance, consistency, solvency and long term cost efficiency across the various LGPS funds.

Proposal(s)

3. Members are recommended to:

a) note the contents of this report and Appendix 1;

b) note 2019 actuarial valuation attached to this report as Appendix 2, reissued by the Fund Actuary in July 2021; and

c) note the 2022 Formal Actuarial Valuation Timetable and Scope, attached as Appendix 3.

Reason for Proposal(s)

4. 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.

5. Each LGPS pension fund is required to appoint its 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. Liabilities 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.

6. The report is based on the actuarial valuations of the 91 funds, with data provided by the funds and their actuaries, and a significant engagement exercise with affected funds. GAD is committed to preparing a section 13 report that makes practical recommendations to advance the reporting aims. Also expecting that their approach to section 13 will continue to evolve to reflect ever-changing circumstances and feedback received.

Relevance to the Council's Corporate Plan

7. Good homes in well-connected neighbourhoods.

8. Build our Economy to create a thriving place.

9. Sustain Strong and healthy Communities.

Background

10. The Government Actuary (GAD) has been appointed by the Department of Levelling Up, Housing and Communities (DLUHC) to report under section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the 91 funds in the Local Government Pension Scheme in England and Wales ('LGPS' or 'the Scheme').

11. This is the second formal section 13 report, a 'Dry Run' was produced in respect of the 2013 valuations and published in 2016. Section 13 applies for the first time to the valuations as at 31 March 2016 and for this report to the valuations as at 31 March 2019 and requires the Government Actuary (GAD) as the person appointed by DLUHC to report on whether the following four main aims are achieved:
    a) **compliance**: whether the fund's valuation is in accordance with the scheme regulations
    b) **consistency**: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within LGPS
    c) **solvency:** whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund
    d) **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.

12. 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

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

c) the responsible authority may

iii) require the scheme manager to report on progress in taking remedial steps

iv) direct the scheme manager to take such remedial steps as the responsible authority considers appropriate

13. GAD looked at a range of metrics to identify potential issues in respect of solvency and long term cost efficiency. Each fund's score under each measure is colour coded or flagged, where:

a) **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

b) **AMBER** - indicates a potential issue should be recognised, but in isolation would not usually contribute to a recommendation for remedial action in order to ensure solvency or long term cost efficiency

c) **RED** - indicates a potentially material issue that may contribute to a recommendation for remedial action in order to ensure solvency or long term cost efficiency

14. 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. Whereby GAD had regard to particular circumstances of some potential exceptions, following engagement with the administering authority and the fund actuary.

15. The detailed results, covering all English & Welsh funds, are contained in the attached Appendix 2 to this report. We can locate our own Fund results by searching for its name.

16. Listed below are some highlights of the are:

17. The charts on pages 12 & 13 of this report show how all funds' funding levels compare when measured on a single "SAB standard basis", which allows proper like-for-like comparison;

18. Page 12 (Chart B1) shows how the funding levels compare on the "local bases" (i.e. as shown in the funds' own valuation reports) vs on this standard basis. If we want to know how well our Fund is funded relative to our peers, then it is the latter (the right hand column) which tells us.

19. Page 13 (Chart B2) in effect shows the degree of prudence of our own Fund's basis vs the standard basis (which is GAD's best estimate). Funds towards the top of the chart have their published funding level assessed more prudently, and vice versa.

20. Pages 30-34 (Table C2) shows the various solvency metrics – green flags mean GAD have no concerns. However white flags indicate GAD has some concern (but not sufficiently so to make it an amber or red flag), for instance on “SAB funding level” they believe the funding position looks particularly low, and “asset shock” is where they consider that any marked fall in assets would have a relatively big impact on contribution rates.

21. Pages 42-46 (Table D2) shows the various long term cost efficiency metrics – again, most funds are green, some have white flags, but now GAD show a few amber flags. The main metrics where flags arise are:
    a) “Deficit period”: GAD consider the implied deficit recovery period to be rather long (calculated on GAD’s standard best estimate basis);
    b) “Return scope”: GAD think that the required investment return looks high relative to the fund’s expected future returns based on its actual asset mix;
    c) “Deficit recovery plan”: in essence GAD believe that contributions should not have been reduced as much (if at all) as they were.

22. The LGPS Actuaries continue to have some issues with some of these metrics and flags. As a result most of them are still in persistence engagement with GAD, as the objective should be for us to have as pragmatic and helpful metrics as possible.

23. Clearly this report has emerged very much closer to the 2022 valuations, than when the 2019 ones were published. GAD have made a number of recommendations which could flow through into the 2022 valuation process.

24. Scheme Advisory Board to consider whether a consistent approach needs to be adopted for conversions to academies, and for assessing the impact of emerging issues including McCloud.

25. SAB to 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.

26. Fund actuaries [to] provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard.

27. SAB to “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”.

28. There is also a clear directional steer on - 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.

2022 Actuarial Valuation Timetable

29. Appendix 3 attached to this report has the timetable and scope for 2022 Formal Actuarial Valuation.

Safeguarding Implications

30. The report provides clear evidence of sound financial management, efficient use of resources, promotion of income generation and adherence to Best Value and good performance management.

Public Health Implications

31. The Enfield Pension Fund indirectly contributes to the delivery of Public Health priorities in the borough.

Equalities Impact of the Proposal

32. The Council is committed to Fairness for All to apply throughout all work and decisions made. The Council serves the whole borough fairly, tackling inequality through the provision of excellent services for all, targeted to meet the needs of each area. The Council will listen to and understand the needs of all its communities.

Environmental and Climate Change Considerations

33. There are no environmental and climate change considerations arising from this report.

Risks that may arise if the proposed decision and related work is not taken

34. The valuation outcome is sensitive to both the actuarial and financial assumptions made within the valuation and any significant variations to those assumptions could impact upon Fund's financial position. Therefore, a prudent approach is crucial in minimising the key risks involved in managing the Pension Fund.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

35. This is a noting report.

Financial Implications

36. There are no immediate finance implications arising from this report.

Legal Implications

37. The Local Government Pension Scheme Regulations 2013, Regulation 62, requires an Administering Authority to obtain an actuarial valuation of its fund as at 31st March 2016, and as at 31st March every third year thereafter. The

documents obtained by the administering authority must include a report by an actuary in respect of the valuation, and a rates and adjustments certificate provided by the actuary. The report must contain a statement of the demographic assumptions used in producing the valuation, and how these assumptions relate to events which have actually occurred in relation to the scheme membership. These documents must be received before the first anniversary of the valuation date.

38. Regulation 66 also requires the Administering Authority to supply copies of any valuation report, rates and contributions certificates to the Secretary of State, employing authorities participating in the Fund and any other bodies liable to make payments to it.

39. When exercising its functions, the Pensions Committee, must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the public sector duty).

Workforce Implications

40. The employer's contribution is a significant element of the Council's budget and consequently any robust monitoring and reviewing system will bring about an improvement in the Fund's performance and will allow the Council to meet this obligation easily and could also make resources available for other corporate priorities.

Other Implications

41. None

Options Considered

42. There are no alternative options.

Conclusions

43. Looking back: this report publicly identifies where our Fund sits relative to our peers on a number of metrics;

44. Looking forward: the report also identifies a number of areas which may affect the outputs of the 2022 actuarial valuations.

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Appendices

Appendix 1 – Section 13 GAD Actuarial Valuations of Funds as at 31 March 2019
Appendix 2 – Enfield 31 March 2019 Valuation Results
Appendix 3 – Enfield PF 2022 Valuation Timetable and Scope of Engagement

Background Papers - None