

Croydon Council

REPORT TO:	PENSION COMMITTEE 18 October 2016
AGENDA ITEM:	9
SUBJECT:	Section 13 Report
LEAD OFFICER:	Richard Simpson Executive Director of Resources
CABINET MEMBER	Councillor Simon Hall Cabinet Member for Finance and Treasury
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT: Sound Financial Management: This report considers the Government's approach to assessing governance risk in relation to the administration of the LGPS.	
FINANCIAL SUMMARY: There are no financial implications as this is a historic analysis of the actuarial valuation of the Croydon Fund.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1 RECOMMENDATIONS
1.1 The Committee are asked to consider and note the contents of this report.

2 EXECUTIVE SUMMARY

2.1 Section 13 of the Public Service Pensions Act 2013 requires the Government Actuary to report on whether four main aims are achieved by the triennial actuarial valuation. These aims are:

- **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 the LGPS;
- **Solvency:** whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund; and

- **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.

2.2 The Government Actuary's Department have carried out a "dry run" section 13 analysis based on the 2013 local valuations. At the national level, across the Local Government Pension Scheme in England and Wales, the analysis found:

- **Compliance:** no evidence of material non-compliance.
- **Consistency:** inconsistencies between the valuations in terms of approach taken, assumptions used and disclosures. These inconsistencies make meaningful comparison of local valuation results unnecessarily difficult.
- **Solvency:** the analysis commented upon the two closed schemes and a number of amber flags were raised for the open funds: none were red-flagged. An amber flag was raised for this scheme, as the funding level at 2013, under common assumptions, was 72%.
- **Long term cost efficiency:** the analysis highlighted two funds that they would have engaged with to determine whether the aims of section 13 were met. The Department also suggested that they might also have engaged with some other administering authorities who had a significant combination of amber flags if section 13 had applied as at 31 March 2013.

2.3 Looking forward the Department indicated that they may change or add considerations, criteria, tests or metrics to the analysis in the future.

3 DETAIL

3.1 The Government Actuary's Department (GAD) have completed a "dry run" section 13 analysis based on the 2013 local valuations. This analysis assesses whether the four main aims; compliance, consistency, solvency and long term cost effectiveness; have been achieved.

3.2 The Government Actuary has been appointed by the Department of Communities and Local Government to report under section 13 of the Public Service Pensions Act 2013 in connection with the Local Government Pension Scheme ("LGPS" or "the Scheme") in England and Wales. Section 13 provides for a review of LGPS funding valuations and employer contribution rates to check that they are appropriate and requires remedial steps to be taken where scheme managers consider appropriate.

3.3 Section 13 will apply for the first time to the 2016 round of ninety-one separate fund valuations for the LGPS. Specifically, in relation to each fund within the LGPS, section 13 requires the Government Actuary to report on whether four main aims are achieved:

- **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 the 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.

3.4 The dry run report is designed to help those administering authorities and their actuarial advisors to prepare for the 2016 round of valuations with some knowledge about how GAD might approach reporting under section 13 following the 2016 round of valuations. Based on GAD's on-going experience of reporting under section 13(4) they may change or add considerations, criteria, tests or metrics to the analysis in the future.

3.5 GAD's report included the following findings:

Compliance: no evidence of non-compliance with the scheme regulations.

Consistency: found inconsistencies between the valuations in terms of approach taken, assumptions used and disclosures. These inconsistencies make meaningful comparison of local valuation results unnecessarily difficult.

Solvency: the two closed schemes were referenced and a number of amber flags were raised under solvency for the open funds. Had section 13 applied, GAD may have engaged with some of these administering authorities, particularly where there was significant combination of amber flags, to discuss reasons behind these flags. However, none were red-flagged.

Long term cost efficiency: for two funds GAD would have engaged with the administering authority to investigate whether the aims of section 13 were met, had section 13 applied.

3.6 Although this report is useful in that it provides stakeholders with information about the tests and metrics used to assess whether the aims of compliance, consistency, solvency and long term cost efficiency have been achieved; an indication of how funds performed against the chosen metrics; and how GAD determined exceptions, it does not help with understanding at what level the hurdles would be set for amber and red flags.

3.7 The Croydon scheme was given one amber flag, under solvency measures. The ten funds with the lowest funding level on the Scheme Advisory Board (SAB) standardised basis were flagged. GAD recognises that whilst being poorly funded is not necessarily sufficient, by itself, to warrant a recommendation for remedial action had section 13 been in force, GAD may nevertheless have engaged with a number of these funds to better understand how they intend to improve their funding position. The report emphasises that it is important that administering authorities and other employers understand the potential variability of contributions, so that they can understand the affordability of providing LGPS benefits to their employees.

3.8 Members should note that flagging the bottom ten funds in terms of adjusted funded level is a crude measure. Further, this refers to the situation in 2013 and does not look at the longer term picture, which is characterized by risk-adjusted increases to

contributions, close focus on affordability and steady, consistent growth in the value of assets.

4 CONSULTATION

4.1 Officers have fully consulted with the Pension Fund's advisers in preparing this report.

5 FINANCIAL CONSIDERATIONS

5.1 There are no financial implications as this is a historic analysis of the actuarial valuation of the Croydon Fund.

6 COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

6.1 The Acting Solicitor to the Council comments that there are no direct legal implications arising as a result of the recommendations within this report

(Approved for and on behalf of Jacqueline Harris-Baker, Acting Council Solicitor and Acting Monitoring Officer)

7 FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

7.1 This report considers matters that have been publicly disclosed.

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BACKGROUND DOCUMENTS:

None