

Committee(s): Finance Committee – For Information	Dated: 15 February 2022
Subject: CoL Pension Fund: GAD Section 13 Summary Report	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	N/A
Does this proposal require extra revenue and/or capital spending?	N/A
If so, how much?	£
What is the source of Funding?	N/A
Has this Funding Source been agreed with the Chamberlain's Department?	N/A
Report of: The Chamberlain	For Information
Report author: Kate Limna – Corporate Treasurer	

Summary

The Government Actuary's Department (GAD) published their second Section 13 Report following the 2019 actuarial valuation of the Pension Fund in December 2021. This report provides a review or health check of the Local Government Pension Scheme and is mandated under Section 13 of the Public Services Pensions Act 2013.

The City of London Corporation Pension Fund has met all the criteria of the Section 13 Valuation, except for the level of contributions which were lower relative to other Funds with similar funding levels, thus raising amber flags. Following consideration by the Chamberlain and Corporate Treasurer with Finance Committee's Lead Member for pensions, this is something the administering authority should be aware of, but does not require immediate remedial action, for the following reasons:

- We are on schedule with the recovery plan to 100% funding level and see no compelling reason to deviate from it.
- Although the Section 13 valuation is a useful check on the health of the LGPS and its Funds, it should not be a key driver for the City of London Corporation Pension Fund in making decisions.

The report also outlines GAD recommendations to the Scheme Advisory Board; the Actuary's observations regarding each of these recommendations, which are set out in paragraph 10 of this report, are raising professional challenges as to whether these solutions are the best way of achieving GAD's aims. These have been fed back to GAD.

Recommendation

Members are asked to note the report

Main Report

Background

1. Following the 2019 triennial actuarial valuation of all Local Government Pension Scheme (LGPS) pension funds in England and Wales, the Government Actuary's Department (GAD) - on behalf of the Department for Levelling Up, Housing and Communities (DLUHC) - has scrutinised the assumptions used by LGPS actuaries

to ensure that employers are taking a sufficiently prudent approach to financing the LGPS benefits.

2. This review, or health check, of the LGPS is mandated under Section 13 of the Public Service Pensions Act 2013. This Section 13 Valuation Report (the Section 13 Report) adopts standard assumptions for all LGPS funds with the aim of providing a level playing field so that funds can be compared on a like for like basis. The purpose of the review is to identify any outlying Pension Funds measured against the following objectives:
 - Compliance
 - Consistency
 - Solvency
 - Long term cost efficiency
3. The Section 13 Report was published on 16 December 2021 and can be found at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1040197/S13_final_report.pdf
4. This is the second Section 13 report to be published. The first report followed the 2016 triennial valuation and was published on 27 September 2018 and reported to the Finance Committee on the 19 February 2019.
5. The City's Actuary, Barnett Waddingham, have analysed the Section 13 Report and the findings in relation to the City of London Pension Fund (the Fund); this report is attached as an Appendix.

GAD Findings on City of London Pension Fund

6. The Fund achieved green flags on all measures except under long term cost efficiency where it received two amber flags and three green flags. The amber flags were around "implied deficit recovery period" and "return scope":
 - Implied deficit recovery period – the Fund's actual recovery period is higher than GAD's arbitrary threshold of ten years.
 - Return scope – although positive, the difference between the Fund's required return as calculated by GAD (4.1%) to return the Fund to a fully funded state, and the Fund's expected return on a best estimate basis (4.4%) is less than 0.5%.
7. The amber flags are caused mainly by the employer contribution rates being relatively low given GAD's best estimate of the deficit recovery period, compared to other funds with similar best estimate funding levels. Amber flags are potentially material issues that GAD 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.
8. The Chamberlain, officers, the Actuary and the Finance Committee lead Member on Pensions and actuarial matters, met with GAD, at their request, in May 2021 to discuss the preliminary results. The amber flags and reasons for them were discussed and in their final report, GAD acknowledge that the Pension Fund has a plan to recover its deficit by 2033, a plan which it has adhered to since being installed in 2013.

9. GAD's analysis focuses on the Fund's financial position relative to other LGPS funds rather than on its absolute financial position and moreover that the period 2016-2019 was a period of strong general performance across the scheme when the aggregate scheme wide funding level increased from 85% to 98%. The amber flags only mean that compared to other funds with similar best estimate funding levels, the contributions paid by the City Corporation are lower than other funds.

Other recommendations

10. The Section 13 report also made several recommendations to the Scheme Advisory Board (SAB) whose role it is to help and support DLUHC and administering authorities fulfil their statutory duties and obligations. These recommendations are set out below along with Barnett Waddingham's comments in italics:

- Recommendation 1: The SAB should consider the impact of on consistency of the funds, participating employers and other stakeholders and should consider whether a consistent approach needs to be adapted for conversions to academies and for assessing the impact of emerging issues including McCloud. In Barnet Waddingham's view, *the academy conversion approach does not fall under the remit of Section 13 but we appreciate the desire to find some consistency in the treatment of academies in the LGPS and we are working with GAD to explore the various options to try and achieve this. In terms of McCloud, there was insufficient information regarding McCloud at the time of the 2019 valuations to ensure a consistent approach, and our approach was discussed and agreed with GAD at the time. We are engaging with GAD in advance of the 2022 valuations to understand their views on McCloud, however in the absence of new Regulations and the fact that the Universal Data Extract is still not able to output the data we need, we are in a similar place to 2019.*
- Recommendation 2: The SAB should 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 Barnett Waddingham disagree with GAD's interpretation of the CIPFA guidance in relation to deficit recovery periods. *GAD's view is that they would not expect to see Funds reducing contributions and extending recovery periods. Our continued interpretation of the guidance is that the focus shouldn't be on a fixed end point, rather a period over which it is appropriate to fund any appearing deficit. If a recovery period is too short then there could be unnecessary burden placed on current taxpayers and it is more important to focus on the stability of contributions for affordability and cashflow reasons.*
- Recommendation 3: Fund actuaries should provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard. Barnett Waddingham have advised that they *consider the dashboard, which was introduced in 2019, useful and conversations have already started between the four actuarial firms and GAD for the 2022 valuation and we do not foresee a significant number of changes.*
- Recommendation 4: The SAB should review all asset transfer arrangements from local authorities to ensure that appropriate governance

is in place around any such transfers to achieve long term cost efficiency. Barnett Waddingham have advised that *although we do not agree with some of the terminology and references made by GAD regarding asset transfers, we appreciate the overriding desire to ensure that appropriate governance and paperwork is in place when additional contributions are made in the form of assets rather than cash. This is an action that is becoming more prevalent in LGPS Funds and therefore having a clear reporting process in place is welcomed.*

Conclusion

11. The City of London Corporation Pension Fund has met all the criteria of the Section 13 valuation, except for the level of contributions which were lower relative to other Funds with similar funding levels, thus raising amber flags. This is something the administering authority should be aware of, but does not require immediate remedial action.
12. The key aim is to ensure that the contributions are set at a suitable level to target 100% funding over an appropriate period using suitable assumptions for the City of London Fund and the Section 13 report makes it clear that the deficit end point at 2033 has been retained and GAD is reassured that the Fund's employers have been adhering to this plan to remove the deficit by 2033.
13. It is equally important to ensure that decisions taken by the Fund are taken for the right reasons and meet the Fund's own objectives, Funding Strategy Statement and Investment Strategy Statement. Although the Section 13 valuation is a useful check on the health of the LGPS and its Funds, it should not be a key driver for the City of London Corporation Pension Fund in making decisions.
14. The Section 13 Report applies standardised assumptions across the LGPS and our Actuary will apply assumptions relevant to the profile of the City's Pension Fund when undertaking the next actuarial review. The actuarial valuation is due as at 31 March 2022 and the Actuary's recommendation on the level of employer contribution for the following three years from 1 April 2023, will be considered by the newly formed Pensions Committee.

Recommendation

Members are asked to note the report.

Appendices

Appendix – CoL Pension Fund: Section 13 Summary Report

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