

Committee(s): Pensions Committee	Dated: 17 September 2024
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 third Section 13 Report following the 2022 actuarial valuation of the Pension Fund in August 2024. 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 although one white flag was raised. The key aim of the review 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 fund.

The report also outlines GAD recommendations to the Scheme Advisory Board of which there are three; the Actuary's observations regarding each of these recommendations, which are set out in paragraph 7 of this report are around consistency and long-term cost efficiency.

Recommendation

Members are asked to note the report

Main Report

Background

1. Following the 2022 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 Ministry for Housing, Communities and Local Government (MHCLG) (previously 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* - whether the actuarial valuation has been carried out in accordance with the Regulations
 - *Consistency* – whether the actuarial valuation has been carried out “not inconsistently” with other funds
 - *Solvency* – whether a fund has sufficient assets together with employer and employee contributions to pay all the benefits due over the long term.
 - *Long term cost efficiency* – whether a fund is receiving sufficient contributions to meet the cost of benefits accruing and to repair any existing deficit over an appropriate period.
3. The Section 13 Report was published on 14 August 2024 and can be found [here](#).
 4. This is the third 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. The second report (following the 2019 valuation) was published on 16 December 2021 and also reported to the Finance Committee on 15 February 2022
 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 ‘Solvency’ where one of the four sub categories received a white flag. The other three sub categories within ‘Solvency’ received green flags. A green flag 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*”. A white flag is “*an advisory flag that highlights a general issue but one which does not require an action in isolation*”. The white flag is around “asset shock”;
 - *Asset Shock* – this measures the change in the average employer pension costs (as a percentage of what is called “core spending”) if there was a fall in markets and the fund’s “growth” assets – essentially non-bonds - fell by 15% and never recovered. A lower percentage is regarded as good here as it indicates that employer contributions are more resilient to market volatility. **The Fund received a white flag.** Similar to 2019 the asset shock for the Fund has been assessed as a percentage of pensionable pay instead of “core spending power” to reflect the unique way the Corporation is funded.

Other recommendations

7. The Section 13 report also made three formal recommendations to the Scheme Advisory Board (SAB) whose role it is to help and support MHCLG and administering authorities fulfil their statutory duties and obligations. Two of the recommendations were around consistency and one was around long-term cost efficiencies. These recommendations are set out below along with Barnett Waddingham’s comments (in italics):

Consistency

- Recommendation 1: We recommend that the Scheme Advisory Board consider whether greater consistency could and should be achieved to allow easier comparison between funds and better understanding of risks.
- Recommendation 2: We recommend that the Scheme Advisory Board continue to consider emerging issues and, where appropriate, whether guidance would be helpful to support greater consistency. As part of great consistency on climate risk, we recommend that work continues to refine the climate change principles document in advance of the 2025 fund *valuations*.
- Barnet Waddingham' View on Recommendations 1 and 2: *GAD have made a number of recommendations within the report which link into the two formal recommendations.*

These include reviewing the valuation dashboard in advance of 2025, reviewing the FSS guidance and reviewing the approach to climate risk analysis. We are already engaging with GAD on these subjects or sit on the relevant working groups.

We consider the valuation dashboard to be a useful addition to the valuation report, but we do not foresee a significant number of changes at 2025.

Long Term Cost Efficiency

- Recommendation 3: We recommend that the Scheme Advisory Board consider the following:
 - Where funds are in surplus, whether additional guidance can be provided to support funds in balancing different considerations.
 - Where deficits exist, how can all funds ensure that the deficit recovery plan be demonstrated to be a continuation of the previous plan.
 - Whether additional guidance is required in relation to the treatment of asset transfers from local authorities.

- BW recommendations to the City of London Corporation Pension Fund: *A lot of LGPS funds are reporting improved funding positions and surpluses on their local funding basis since the 2022 valuation. This has largely been driven by funds using a gilts-based discount rate, which is not the BW approach.*

However, GAD have provided some recommendations to funds around dealing with surpluses which should be considered as part of the 2025 valuation process. They note that there needs to be a balance between paying out surpluses too quickly and retaining large surpluses. We will pick up this issue with the Fund as part of the pre-valuation discussions and as part of the contribution rate setting process.

Conclusion

8. The City of London Corporation Pension Fund has met all the criteria of the Section 13 Valuation and received green flags except under solvency (asset shock) where it received a white flag.
9. GAD have made three recommendations to the Scheme Advisory Board, two around consistency and one around long-term cost efficiency. This latter

recommendation is around improved funding positions and surpluses, and how this should be considered as part of the 2025 valuation. This will be discussed with Barnett Waddingham at the pre valuation meeting being held later this year.

10. 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.
11. 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 next actuarial valuation is due as at 31 March 2025 and the Actuary's recommendation on the level of employer contribution for the following three years from 1 April 2026, will be considered by the Pensions Committee.

Recommendation

Members are asked to note the report.

Appendices

Appendix – CoL Pension Fund: Section 13 Summary Report

Kate Limna

Corporate Treasurer – Chamberlain's Department

T: . 020 7332 3952

E: kate.limna@cityoflondon.gov.uk