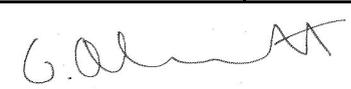




<b>Report to:</b>	Pension Committee	<b>Date:</b>	19 November 2018
<b>Report title:</b>	Government Actuary Department (GAD) Section 13 Report		
<b>Report from:</b>	Gerald Almeroth, Strategic Director - Resources		
<b>Ward/Areas affected:</b>	Borough Wide		
<b>Chair of Committee:</b>	Councillor Jill Whitehead		
<b>Author(s)/Contact Number(s):</b>	Lyndsey Gamble, Head of Investment, Risk and Commercial Finance - Resources 020 8770 5358 Paul Audu, Investment, Insurance and Commercial Manager - Resources 020 8770 5436		
<b>Corporate Plan Priorities:</b>	<ul style="list-style-type: none"> <li>• Making Informed Choices</li> </ul>		
<b>Open/Exempt:</b>	Open		
<b>Signed:</b>		<b>Date:</b>	08 November 2018

## 1. Summary

- 1.1 The Ministry of Housing, Communities and Local Government (MHCLG) has published the first statutory review of the Local Government Pension Scheme (LGPS). The Government Actuary's Department (GAD) was appointed by the MHCLG to report under section 13 of the Public Service Pensions Act 2013 in connection with the triennial actuarial valuations of the 91 LGPS Funds in England and Wales. The formal GAD section 13 report can be viewed via the background documents below.
- 1.2 The purpose of this report is to inform the Pension Committee that Sutton Pension Fund achieved a positive outcome in the GAD review of the actuarial valuations of LGPS Funds in England and Wales as at 31 March 2016 contained in a report published on 27 September 2018.

## 2. Recommendation

The Pension Committee is recommended to:

- 2.1 Note the content of this report.
- 2.2 Note Sutton Pension Fund's good performance in the GAD's rigorous test against four statutory measures: compliance, consistency, solvency and long-term cost efficiency.



- 2.3 Note that GAD has reported that, in general, the LGPS is in good health financially and Funds have made significant progress since the 2013 valuation to meet all the assessment criteria.
- 2.4 Note that GAD's appointment to report under section 13 does not confer any statutory power on the Government Actuary to enforce actions on administering authorities or their advisers.

### 3. Background

- 3.1 Section 13 of the Public Service Pensions Act 2013 requires GAD to report on whether LGPS administering authorities in carrying out actuarial valuations achieve the following key aims; compliance, consistency, solvency and long-term cost efficiency. A review ('Dry Run') was carried out by GAD in respect of the 2013 valuations and its landmark report was published in 2016.
- 3.2 The latest section 13 report based on the valuations of all LGPS Funds in England and Wales and supporting data provided by administering authorities, and their actuaries, is the first formal section 13 report produced by GAD.
- 3.3 Under subsection (4) of section 13, GAD is required to report whether LGPS authorities adhere to four main aims:
- Compliance - whether the valuation approach is in line with the scheme regulations
  - Consistency - whether the valuation approach is consistent with methods adopted by other authorities
  - Solvency - whether the employer contribution rate is appropriate to ensure the solvency of the pension fund; and
  - Long-term cost efficiency - whether the employer contribution rate is appropriate to ensure the long-term cost efficiency of the pension fund and the scheme.
- 3.4 Each pension fund's score for each measure is "flagged" (colour coded RAG status) as follows:
- Green Flag - No material issues to require a recommendation for remedial action from a solvency or long-term cost efficiency perspective
  - Amber Flag - Potential issue but on its own would not merit a recommendation for remedial action from a solvency or long-term cost efficiency perspective
  - Red Flag - Potentially material issue likely to constitute grounds for a recommendation for remedial action from a solvency or long-term cost efficiency perspective
- 3.5 If GAD determines that one or more of the four aims have not been met, the report may recommend (and the administering authority must take) appropriate remedial steps. Flags help GAD to determine whether further investigation is necessary.



#### 4. Issues

##### 4.1 LGPS Section 13 Review: 2013 to 2016

##### 4.2 The highlights of the GAD section 13 report are:

- The market value of LGPS total assets has increased from £180bn in 2013 to £217bn in 2016.
- Aggregate funding level has improved from 79% to 85%. This is partly attributed to better than expected returns on assets.
- Total employer contributions received was £6.9bn per annum on average of which about £2bn per annum was in respect of deficit recovery payments.
- Out of the 89 Funds tested, 70 (or 78.7%) achieved green flags on solvency and long-term cost efficiency metrics. This compares favourably with 52 out of 90 Funds tested for the 2013 Dry Run report.
- 20 Funds received Amber flags and 2 Funds got Red flags. At the 2013 test, there were 58 Amber flags and 5 Red flags.
- Sutton Pension Fund received Green flags on all measures in the 2016 GAD review.
- With regards to the solvency measure, Sutton Pension Fund had one of the lowest Asset Shock (defined as 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) level of 1.3% with scores ranging from surplus (the best) to 7.4% (the worst). This measure shows the impact on total employer contribution rates of a one-off decrease in the value of Sutton's return-seeking assets as defensive assets are assumed to be unaffected.
- For long-term cost efficiency measure, Sutton scored 6.4 and ranked 36th out of 90.
- In their review, GAD used the SAB funding level (an indication of the extent of remedial action that may be required to ensure solvency). This means that local funding levels are restated onto the SAB standardised basis. Sutton's local funding level (80%) was ranked about mid-table but on the SAB standard basis the funding level was (86%) ranked towards the upper end of the bottom quartile, indicating that the local fund basis is about in line with the other funds.

##### 4.3 In the section 13 report, GAD makes a number of recommendations and urges the Scheme Advisory Board (SAB) to recommend changes to the Government ahead of the next triennial valuation. GAD's general recommendations are:



- That SAB should explore the implementation of a standardised approach to presentation of actuarial reports across the LGPS to promote greater transparency and support peer group comparison.
- That SAB consider pushing for better clarity and consistency in actuarial assumptions with limited scope for local discretion.
- That SAB aim to secure parity in valuation approach for future academies
- That administering authorities review their funding strategy to ensure that the policy around surplus and deficits is consistent with CIPFA guidance. The deficit recovery plan should be on a continuum giving regard to actual fund experience.

## **5. Impacts and Implications**

### Financial

- 5.1 There are no financial implications arising from this report.

### Legal

- 5.2 There are no legal implications arising from this report.



## 6. Appendices and Background Documents

Appendix Letter	Title
None	N/A

Background documents
1. GAD Report, 27 September 2018 - Local Government Pension Scheme England and Wales: Review of the Actuarial Valuations of Funds as at 31 March 2016 Pursuant to Section 13 of the Public Service Pensions Act 2013 - <b>Executive Summary</b>
2. GAD Report, 27 September 2018 - Local Government Pension Scheme England and Wales: Review of the Actuarial Valuations of Funds as at 31 March 2016 Pursuant to Section 13 of the Public Service Pensions Act 2013 - <b>Full Report</b>
3. GAD Report, 27 September 2018 - Local Government Pension Scheme England and Wales: Review of the Actuarial Valuations of Funds as at 31 March 2016 Pursuant to Section 13 of the Public Service Pensions Act 2013 - <b>Report Appendices</b>

Version	Final	Date: 8 November 2018
<b>Consultation with other officers</b>		
Finance	Yes	Lyndsey Gamble
Legal	No	N/A
Equality Impact Assessment required?	No	N/A

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