

**PENSIONS COMMITTEE****23 FEBRUARY 2022**

<b>REPORT TITLE:</b>	<b>LOCAL GOVERNMENT PENSION SCHEME (LGPS) UPDATE</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF PENSIONS</b>

**REPORT SUMMARY**

This report informs Members that on 16th December 2021, the Department for Levelling Up, Housing and Communities (DLUHC) published the Government Actuary Department's (GAD) report on the 2019 LGPS valuations for England and Wales, as required, under Section 13 of the Public Service Pension Schemes Act 2013. The report was expected to be published in the summer but was delayed due to ministerial time constraints and discussions between various stakeholders.

**RECOMMENDATION/S**

That the Pensions Committee note the outcomes of the Section 13 report and the specific information relating to Merseyside Pension Fund.

## SUPPORTING INFORMATION

### 1.0 REASON FOR RECOMMENDATION/S

- 1.0 There is a requirement for Members of the Pension Committee to be kept up to date with these developments as part of their decision-making role and overall governance of the Fund.

### 2.0 OTHER OPTIONS CONSIDERED

- 2.1 This is the most appropriate option for informing the Pensions Committee of industry developments.

### 3.0 BACKGROUND INFORMATION

#### Section 13 Report on 2019 LGPS valuations

- 3.1 This is the second formal Section 13 report on MPF. Section 13 was previously applied, for the first time, to the 2016 LGPS triennial valuation. The Key Performance Indicators (KPIs) for the Merseyside Pension Fund are attached as an appendix along with explanatory notes relating to each measure applied by the GAD in their assessment.

The Fund's 2019 valuation funding strategy was given a clean bill of health and was rated "green" for all of the KPIs, with the exception of 'asset shock' which reflects the potential impact of a sharp fall in asset values on future contribution requirements, relative to the core spending power of the major Councils (i.e. the level of affordability of increases). The asset shock measure is a consequence of Merseyside's surplus funding position, and highlights that the local employers have constrained budgets relative to the overall potential additional contribution requirements.

- 3.2 The remit of the Section 13 valuation is to test the premise of achieving solvency and long-term cost efficiency to ensure that appropriate funding plans are put in place for all LGPS Funds in England and Wales. Section 13 requires the GAD to report on whether the following aims are achieved:

- **Compliance** – the report noted that this objective has been met
- **Consistency** – the report noted that in general whilst there appears to have been an improvement in consistency in the key assumptions there is still progress needed and there has been little progress in relation to academy conversions
- **Solvency** - the report makes the comment that liabilities are growing much faster than size of employers backing them which therefore presents greater risk going forward, despite an improvement in funding levels more generally. However, the asset liability modelling that has been included in this section, allows for the downturn due to the onset of the national lockdown at the start of the pandemic but not the rebound (due to lack of availability of data), which

presents a more downbeat picture than is expected to be the case, although the ongoing outlook is very uncertain.

- **Long term cost efficiency** - GAD reiterates the message of the need to consider the balance of cost between current and future generations of taxpayers and that deficit recovery plans can be demonstrated to be a continuation of the existing plan with appropriate adjustment for experience since previous valuations. In addition, there is commentary in the GAD report regarding the use of contingent assets and the additional cost and risk associated with such arrangements with a recommendation for the Scheme Advisory Board (SAB) to consider the governance of such arrangements.

## 2022 Valuation Implications

- 3.3 The report also notes several key areas for consideration for the 2022 valuations, including on McCloud, the impacts of Covid-19 and on climate change reporting.
- 3.4 **McCloud costs** - Given that there is now greater certainty around the McCloud remedy, GAD notes it would expect a consistent and explicit calculation approach to be adopted at the next valuation.

For the Fund, an explicit calculation approach was undertaken for the 2019 valuations, which for active members is consistent with the expected final remedy (subject to receipt of draft regulations, which are expected in 2022).

- 3.5 **Covid-19 impact** - In relation to Covid-19, the report simply comments that a dialogue between the actuarial firms and GAD to ensure consistency of approach, is encouraged.
- 3.6 **Climate change** - The report notes that DLUHC will be consulting on proposals for new requirements for assessing and reporting on climate risks in 2021 in line with the recommendations of the Taskforce on Climate-related Financial Risks (TCFD), and new regulations and guidance are expected to follow. It further notes that 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. This is something that Mercer as the Fund Actuary will be considering in conjunction with officers.

## Other Considerations

- 3.7 **Academies** - The report comments in some detail about consistency of funding treatment for academies and the lack of progress in achieving consistency in funding approach for conversion to academy status. In the absence of a mandated approach, Funds will continue to apply their own policies for academy conversions. The Fund is satisfied that its funding approach for academy conversions is fair to all parties.

3.8 **Standardised Assumptions** - The remit of the Section 13 valuation is to test the premise of achieving solvency and long-term cost efficiency to ensure that appropriate funding plans are put in place. The Fund actuary's view is that assumptions used across Funds do not need to be standardised and that any alignment of approach should be principles based. This is true of funded pension arrangements which have different risk appetites, breadth of employers, affordability constraints and differential investment strategies. It is welcomed that the finalised report acknowledges that variation of discount rate and demographic assumptions between Funds is to be expected. GAD also notes the need for more transparency in the reporting of the local considerations that have been taken account of for assumption setting, to help justify the variance in assumptions between Funds going forwards.

3.8 **Planning for 2022** - The report provides context as LGPS funds progress the planning for the 2022 valuations, in particular the messaging around climate change reporting will be welcomed and the Actuary will work with GAD and the other actuarial firms together with Fund officers as to how this will be delivered in practice.

#### **4.0 FINANCIAL IMPLICATIONS**

4.1 There are none directly arising from this report.

#### **5.0 LEGAL IMPLICATIONS**

5.1 The Department for Levelling Up, Housing and Communities (DLUHC) instructed the Government Actuary Department's (GAD) to report on the 2019 LGPS valuations for England and Wales, as required under Section 13 of the Public Service Pension Schemes Act 2013.

#### **6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS**

6.1 There are none directly arising from this report.

#### **7.0 RELEVANT RISKS**

7.1 A failure to provide Pensions Committee with reports commissioned by the government in regard the LGPS could hinder Committee in fulfilling its statutory requirements.

#### **8.0 ENGAGEMENT/CONSULTATION**

8.1 As the Section 13 report is commissioned by the DLUHC there was no requirement for the Fund to consult with stakeholders.

#### **9.0 EQUALITY IMPLICATIONS**

9.1 DLUHC and the Scheme Advisory Board undertake equality impact assessments regarding the provisions of the LGPS Regulations and the long-term cost efficiency of Scheme funding arrangements.

#### **10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS**

10.1 There are none directly arising from this report.

## 11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none directly arising from this report.

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## APPENDICES

Appendix 1 - MPF Section 13 Summary of KPIs

## BACKGROUND PAPERS

### Section 13 Report

[Local Government Pension Scheme: review of the actuarial valuations of funds as at 31 March 2019 - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

## SUBJECT HISTORY (last 3 years)

Council Meeting	Date
The LGPS Update is a standing agenda item on Pensions Committee	