Southwark Council
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Local Pension Board

Wednesday 19 January 2022
10.00 am
Online/Virtual

Membership

Mike Ellsmore (Independent Chair)

Dominic Cain (Vice Chair) – Employer Representative

Allan Wells – Employer Representative

Mike Antoniou – Schools Employer Representative

Diana Lupulesc – Employee Representative

Henry Mott – Employee Representative

Tony O'Brien – Retired Employee Representative

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Local Pension Board

Wednesday 19 January 2022
10.00 am
Online/Virtual

Order of Business

Item No.	Title
	PART A – OPEN BUSINESS
1.	**TRAINING SESSION: ADMIN STRATEGY – ADMINISTERING AUTHORITY AND EMPLOYER RESPONSIBILITIES**
2.	**APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**
3.	**NOTIFICATION OF INTENTION TO CONDUCT BUSINESS IN A CLOSED MEETING**
4.	**DISCLOSURE OF INTERESTS AND DISPENSATIONS**
	Members of the board to declare any interests and dispensation in respect of any item of business to be considered at this meeting.
5.	**MINUTES**
	To agree as a correct record, the open minutes of the meeting held on 20 October 2021.
6.	**ACTION TRACKER**
7.	**PENSIONS SERVICES**

Item No.	Title	Page No.

PART B – CLOSED BUSINESS

PENSIONS ADVISORY PANEL MEETING PAPERS – CLOSED PAPERS:

CLOSED APPENDIX 1 RELATING TO AGENDA ITEM 13 : QUARTERLY INVESTMENT UPDATES

CLOSED APPENDIX 2 RELATING TO AGENDA ITEM 13: QUARTERLY ACTUARIAL FUNDING UPDATE

EXCLUSION OF PRESS AND PUBLIC

The following motion should be moved, seconded and approved if the sub-committee wishes to exclude the press and public to deal with reports revealing exempt information:

“That the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 1-7, Access to Information Procedure rules of the Constitution.”

ANY OTHER CLOSED BUSINESS

Date: 10 JANUARY 2022

Local Pension Board

MINUTES of the Local Pension Board meeting held on Wednesday 20 October 2021 at 10.00am, online, using Microsoft Teams

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PRESENT:	Mike Ellsmore – Independent Chair
	Dominic Cain – Employer Representative
	Allan Wells – Employer Representative
	Diana Lupulesc – Employee Representative
	Tony O'Brien – Retired Employee Representative
	Mike Antoniou – Schools Employer Representative

OTHERS PRESENT:	Caroline Watson – Senior Finance Manager
	Geraldine Chadwick – Senior Finance Manager
	James Gilliland – Divisional Accountant
	Jack Emery – CIPFA Trainee
	Peter Hughes – Deputy Pensions Manager
	Jamie Abbott - Deputy Pensions Manager
	Josh Orr – Data Systems Manager

Iain Hunter – Pensions Payroll Manager

Deborah Patten – Pensions Trainer

1. TRAINING SESSION: ADDITIONAL VOLUNTARY CONTRIBUTIONS

Deborah Patten (DP) conducted the training session.

Dominic Cain (DC) asked if training on other ancillary aspects of contributions beside AVCs would be available, and what Mike Ellsmore (ME) considered to be the role of the board in terms of AVCs.

ME responded that it was the Board's role to check that the provider (Aegon) is sound and performing well. Peter Hughes (PH) mentioned that the Pensions Services team undertake regular reviews of the AVC provider. ME asked if the latest review could be brought to the next meeting.

ME asked whether there was active promotion of AVCs to members. PH responded that in normal times, Aegon brought their "roadshow" to Tooley Street to promote AVCs as an option to members, and that this would resume if current restrictions allowed.

ME thanked DP for conducting the training.

Action: Latest review of the AVC provider to be shared with LPB members at the next meeting.

2. APOLOGIES AND ABSENCES

Apologies were received from Henry Mott and Barry Berkengoff.

3. NOTICE OF INTENTION TO CONDUCT BUSINESS IN A CLOSED MEETING

Agenda item 13 – closed section of the pensions advisory panel meeting papers to be conducted in a closed meeting.

4. DISCLOSURE OF INTERESTS & DISPENSATIONS

ME declared an interest in Item 14, reappointment of the independent chair, and confirmed that he would leave the meeting at that juncture and hand over the chair to DC.

5. MINUTES OF PREVIOUS MEETING

Resolved: that the minutes of the meeting held on 21 July 2021 are agreed as correct by the board.

6. ACTION TRACKER

Caroline Watson (CW) provided an update. It was noted that no date has yet been set for the session on LPB remuneration. The action tracker was accepted.

7. PENSIONS SERVICES UPDATE

PH introduced this report.

An increasing number of staff are present in the office now. The contact centre is fully recruited and running well; statistics on performance will be ready for the next Board meeting. The Civica move is progressing as planned; likewise the SAP payroll migration to UPM is going well. A new payroll manager has been recruited.

Most recruitment to the team is complete, only recruitment of a small number of apprentices remains. A pensions awareness campaign is shortly to begin, consisting of fortnightly emails to members. There have been a small number of queries about Annual Benefit Statements this year, but all have now been resolved. A "pensions surgery" will be offered online, for members to ask questions.

The McCloud case is slowly progressing through the courts; Pensions Administration are monitoring the progress of the case.

Performance statistics for complaints are appended; there is nothing to report save that the scope of the statistics will be expanded in future reports.

ME thanked PH and asked if the team was finding that it was writing to more members who were affected by the Annual and Lifetime Allowances? PH agreed.

AW asked how the new contact centre was going. PH responded that it was going successfully, and spoke about some of the advantages of an embedded contact centre, particularly the faster turn-around of queries received, and the opportunity to spread pensions knowledge among those staff responsible for the initial responses, leading to a quicker, more streamlined service.

Resolved: that the pensions services report is noted by Board members.

8. PENSIONS REGULATOR CODE OF PRACTICE 14 UPDATE

Geraldine Chadwick (GC) introduced the report. The recommendations of the report are included in appendix 1; the declaration of interests form has gone to Legal Services for their opinion on it. Declaration of interest forms can be distributed after the meeting, if desired, and used to create an up-to-date and bespoke register of interests.

The improvement plan and declaration of interests form were noted.
ME raised a longer-term aspiration to have a single conflict of interest policy for the entire Fund, noting that the existing Council one was not suited to all circumstances.

AW asked if the Internal Audit report could be shared with the Board. ME confirmed that he had no opposition with this being circulated before the next meeting.

Resolved:

- That the update on the action plan is noted.
- That the most recent internal audit report is distributed to Board members before the next meeting.

9. INVESTMENT STRATEGY STATEMENT

CW introduced the report. The Investment Strategy has been renewed and updated, and the Board's views and comments on this draft report are sought.

ME raised three points; firstly, about liquidity risk, and whether it would be possible to plot a three-year cash flow for the fund; secondly, he expressed some concern at the rise in the number of individual mandates, and asked whether or not the officer monitoring team was adequately resourced? Thirdly, he encouraged CW to consult members directly, and other employers within the Fund.

Resolved:

- That the investment strategy statement is noted.
- That the points raised regarding the ISS be considered for the final version of the document.

10. SECTION 13 GAD REPORTS

CW introduced the report. The Government Actuary's Department (GAD) has reported on the Fund's 2019 actuarial valuation. Key points are that the GAD's estimation of funding is well in excess of the Fund actuary's; 111% compared to 103%. The Southwark Fund comes out of the review very well, and does not have any of the "red flags" which have been attached to other pension funds. All in all, it is a positive assessment from the GAD.

Resolved: that the report on section 13 GAD reports is noted.

11. CIPFA CODE OF PRACTICE ON KNOWLEDGE AND SKILLS 2021

CW introduced the report. The CIPFA Code and Framework have been updated for 2021; these predominantly affect the pensions advisory panel (PAP) rather than the Board, and the existing guidance for boards remains the same.

ME noted that this placed more responsibility upon members of PAP, and asked what the Board's responsibility was in respect of this. CW mentioned that this would need to be tabled at PAP soon. Previously PAP has had no requirement for a formal training plan in the same manner as which the Board has had; but statutory guidance may well follow and we should be prepared for that.

ME raised concerns over the turnover of membership of the PAP, and mentioned that in an ideal world PAP members would commit to a three-year term, or something similar. AW mentioned that Boards had a statutory responsibility to remain informed and adequately trained, which the PAP has never hitherto had; what expectations should there be of PAP's training requirements? Other committees of the Council had specific training requirements for new members. DC agreed; should this be part of appointments to such committees more generally? CW agreed that this was something that she would like to see, and mentioned that particular training on environmental impacts to the pension fund might be relevant, too.

ME resolved that the Board would like to encourage PAP to adopt specific training; the timing of this might coincide with a new panel after May's election.

Resolved:

- That the report on the recent updates to the CIPFA Knowledge and Skills requirements is noted.
- That the points raised regarding training arrangements for PAP would be raised at a future PAP meeting and considered in the training plan for PAP going forward following the local elections in May 2022.

12. LPB INSURANCE RENEWAL – DECEMBER 2021 (VERBAL UPDATE)

CW introduced this item. The liability insurance for LPB members is due on 01 December; an email will be sent to Board members asking them to confirm whether they are aware of any activity which could give rise to a potential claim. Board members must respond to this email to enable the insurance to be renewed.

Update: during the renewal process, Aon advised that the underwriters (Chubb) are reviewing their scheme policy wording and were therefore only able to extend the policy to March 2022. They confirmed that there has been no indication that Chubb will be withdrawing from the market at this stage, but may make some amendments to their policy terms.

LPB members will be kept up to date on developments regarding this. If Chubb either withdraw from the market or the revised terms are not adequate for the Board's requirements, an indemnity to Board members may be considered as an alternative option after March.

Resolved: That Board members are kept up to date once further information is available from Aon on whether insurance cover will continue after March 2022.

13. PENSIONS ADVISORY PANEL MEETING PAPERS – OPEN PAPERS

ME introduced this item. ME observed the 14.1% allocation to the Diversified Growth Fund, compared to the 10% benchmark. CW confirmed that there were no plans for portfolio rebalancing as yet, and that some assets had grown significantly in recent months, but that these allocations would continue to be monitored.

Resolved: That the PAP meeting papers are noted.

15. ANY OTHER BUSINESS

ME asked if there was any other open business. He asked if January's board meeting ought to be conducted face-to-face, or online. AW mentioned that they were under no obligation, in the way that council committees were, to meet face-to-face. CW confirmed that this decision was at the Board's discretion. ME resolved that the intention would be to meet face-to-face next time, future conditions allowing.

ME then recused himself from the meeting, as previously agreed, with chairmanship passing to DC.

14. OPTION TO RE-APPOINT LPB CHAIR

DC praised ME's contributions thus far, pointing out that he brings a great deal of knowledge, and his recommendation was to continue with ME as the independent chair. This was approved.

Resolved: That ME is re-appointed as independent Chair for a further year commencing October 2021.

16. DATE OF NEXT MEETING

The meeting ended at 11:09am.

The next meeting will be on 19 January 2022 at 10am.

Item 6
Local Pension Board - Action Tracker

Date of Meeting	Action Ref	Action	Due Date	Response	Status
07 April 2021	17	Report on remuneration of LPB members to be tabled at a future meeting.	April 2022	Report will be tabled at the April 2022 meeting.	Outstanding
07 April 2021	18	Revised administration strategy to be tabled at a future LPB meeting.	TBC	Will be tabled at PAP first. Training on the administration strategy is scheduled for January 2022.	Outstanding

Item No. 7	Classification: Open	Date: 19 January 2022	Meeting Name: Local Pension Board
Report title:		Pension Services - administration function update	
From:		Pensions Manager, Finance and Governance	

RECOMMENDATION

1. The Local Pension Board (the **Board**) is asked to note this update on the pensions administration function.

BACKGROUND INFORMATION

2. The Board received an update on 20 October 2021 which set out information about staff changes, IT/systems, communications and complaint management.

COVID-19 IMPLICATIONS

3. Prior to 13 December 2021 there had been a regular presence of staff in Tooley Street. However, in line with existing Government guidance and Southwark HR advice, all pensions staff are working from home wherever possible.

IT/SYSTEMS

4. The Data Systems Team continue to test new Civica/UPM processes and data that has been mapped to the new system. Unfortunately, we have uncovered some formatting issues with SAP (pensioner) data which has meant Civica requiring more historical pensioner data from the existing admin system (Altair).

5. Whilst a go-live in Q1 2022 was achievable, it placed too much risk on three high profile projects -> employer year-end data submissions for Annual Benefit Statement production -> Pension Increase for 8,000 members, and -> the data extraction requirements for the 2022 actuarial valuation. Therefore, go-live for both Pensioner Payroll and Admin will be aligned to 1 May 2022 (not phased).

6. Documents/imaging - the first transfer has been completed successfully with two more transfers scheduled before the UPM system goes live.

RECRUITMENT/STAFFING

7. In view of current Covid guidelines, recruitment of the assistant level/apprentice roles will be postponed until early 2022.

8. A First Contact Officer vacancy exists as an existing colleague has decided to relocate to Birmingham. We are working with Southwark Council HR to either recruit externally or put in place a 12-month secondment from Contact Centre.

UK PENSIONS DASHBOARD PROGRAMME

9. Nothing new to report except to confirm this initiative is still expected to go-live during 2023. The data/data formatting requirements are still being finalised.

10. Below is a video link to the dashboard programme and introduction to the ecosystem explaining how the identity service and consent and authorisation processes work. We recommend Board members watch the 2 minute video.

PROGRESS TO JANUARY 2022

Since the last Board update, further progress has been made in the following areas.

COMMUNICATION INITIATIVES

11. An AVC information/awareness email will be issued shortly to active members.

12. Annual Allowance taxation checks for 2020-21 are now complete with all affected members being contacted in early October 2021.

13. Communication review now underway for all pensions/payroll admin letters/statements as part of the move to new UPM admin software. Wherever possible, communication will be in Plain English and Crystal Marked.

14. Website initiatives underway to improve member engagement and interest.

15. Training continues to be delivered to members, staff, HR and employers. At least 14 hours a week is dedicated to staff and employer training.

16. A new Microsoft Teams channel has been created for staff which is used throughout the day for training, guidance and first contact assistance.

17. Winter 2021 newsletter to be finalised shortly and issued in paper and digital formats. It will include commentary on the Funds carbon journey.

COMPLAINT MANAGEMENT

- The Pensions Ombudsman (TPO) - deferred member requested a transfer out to another pension provider but the transfer was within 12 months of Normal Pension Age. This is prohibited under the LGPS Regs and PSA93. Ongoing case with TPO.

- IDRP - lack of 'due diligence' claim against the Fund following the decision of a former deferred member to transfer out. As the transfer value was less than £30k the onus was on the former member/agent to obtain appropriate financial advice. Pensions Manager will provide the stage 2 final decision.

PERFORMANCE MONITORING

Appendix 1 shows statutory pensions data collected between 1 October 2021 and 31 December 2021. The format has been amended to show how current performance compares to the performance metrics provided in the previous Board report.

Longer-term aspirations are to benchmark against CIPFA guidance (or better).

Attached as Appendix 2 is First Contact data collected between the same period. We will expand this report over time to include subject matters and call handling times.

FUTURE WORK PLANNING

18. A 12-month work plan will be produced going forward covering key planned activities during 2022-23. This coincides with Civica UPM go-live and will cover areas such as Member Self Service functionality and continuous improvements.

CONCLUSIONS

19. Retention of key staff with the necessary skills is critical to the achievement of future plans.

20. There will continue to be some reliance on specialist external support. However, with internal training now firmly established and taking place regularly, 95% of all business as usual and project work is managed in-house by Pension Services.

21. Performance monitoring remains an important part of the pensions function. The procurement of new Civica UPM software will allow Pension Services to develop workflow and task management, where more detailed Management Information can be extracted around performance. However, the Board is also asked to consider that processing speed is not the only indicator of success, and that attention to detail and the customer journey must also be considered.

KEY ISSUES FOR CONSIDERATION

22. N/a

Policy framework implications

23. There are no immediate implications arising from this report.

Community, equalities (including socio-economic) and health impacts

Community impact statement

24. There are no immediate implications arising from this report.

Equalities (including socio-economic) impact statement

25. There are no immediate implications arising from this report.

Health impact statement

26. There are no immediate implications arising from this report.

Climate change implications

27. There are no immediate implications arising from this report.

Resource implications

28. There are no immediate implications arising from this report.

Legal implications

29. There are no immediate implications arising from this report.

Financial implications

30. There are no immediate implications arising from this report.

Consultation

31. There are no immediate implications arising from this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Governance

32. Not applicable.

Strategic Director of Finance and Governance

33. Not applicable.

Other officers

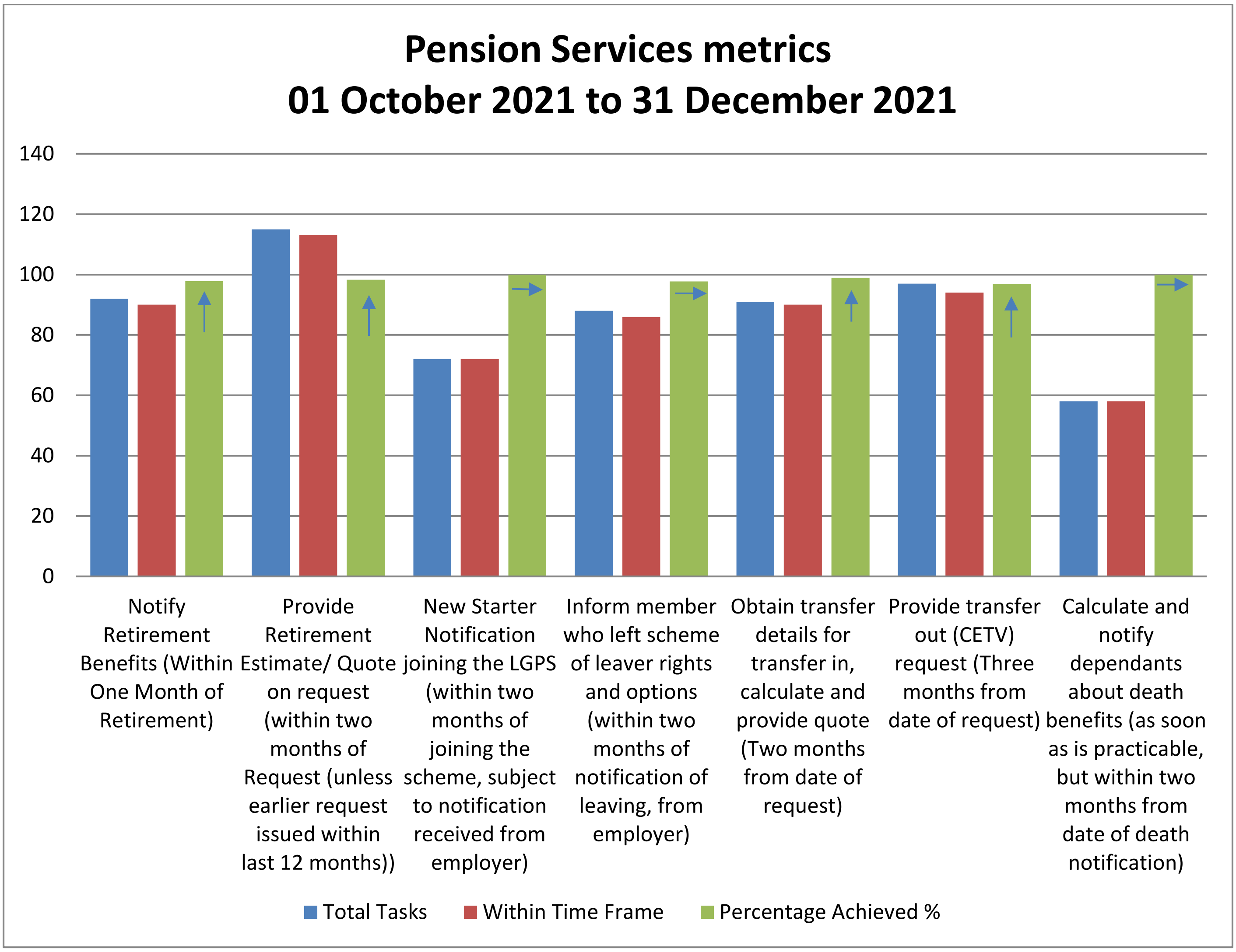
34. Not applicable.

APPENDICES

No.	Title
Appendix 1	Performance Metrics
Appendix 2	First Contact Performance Metrics

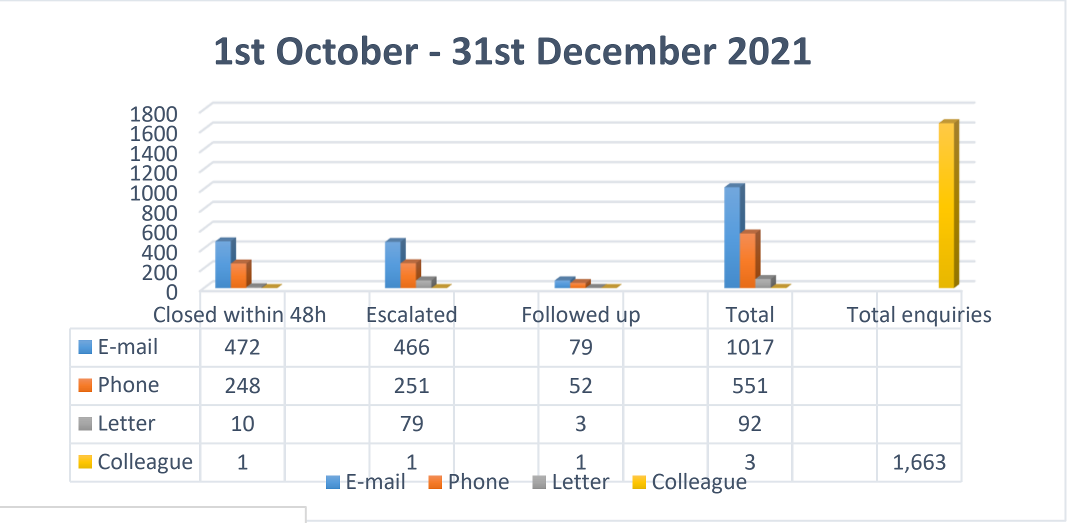
AUDIT TRAIL

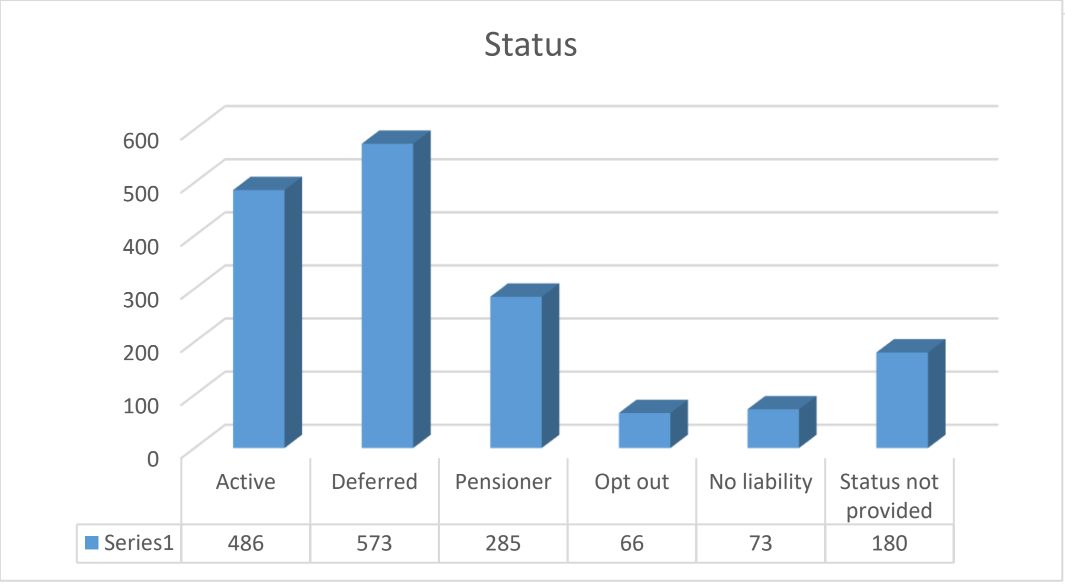
Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Barry Berkengoff, Pensions Manager, Finance and Governance	
Version	Final	
Dated	19 January 2022	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	No	N/a
Strategic Director of Finance and Governance	No	N/a
List other officers here		
Cabinet Member	No	N/a
Date final report sent to Constitutional Team / Scrutiny Team		



	Total Tasks	Within Time Frame	Achieved %
Notify Retirement Benefits (Within One Month of Retirement)	92	90	98
Provide Retirement Estimate/ Quote on request	115	113	98
New Starter Notification joining the LGPS	72	72	100
Inform member who left scheme of leaver rights and options	88	86	98
Obtain transfer details for transfer in, calculate and provide quote	91	90	99
Provide transfer out (CETV) request (Three months from date of request)	97	94	97
Calculate and notify dependants about death benefits	58	58	100

	E-mail	Phone	Letter	Colleague
Closed within 48h	472	248	10	1
Escalated	466	251	79	1
Followed up	79	52	3	1
Total	1017	551	92	3
Total enquiries				**1,663**





Item No. 8	Classification: Open	Date: 19 January 2022	Meeting Name: Local Pension Board
Report title:		Pensions Regulator Code of Practice 14 Update	
From:		Technical Accountant - Professional Finance Services	

RECOMMENDATIONS

The Local Pension Board (the Board) is asked to:

- Note the significant progress made to date.
- Note the Code of Practice (COP14) review improvement plan at appendix 1.

BACKGROUND INFORMATION

1. It was agreed at the January 2021 Board meeting that progress against the COP14 review improvement plan would be reported at future meetings.
2. This report updates the Board on progress made against the plan to January 2022.

PROGRESS ON ACTION PLAN

3. The action plan at appendix 1 has highlighted (**in gold**) actions or amendments since July. These are covered below. The plan also has updated timelines for delivery where appropriate.

Governing your Scheme

- Training is ongoing. 'Admin Strategy training – Administering Authority and Employer responsibilities' is at agenda item 1. The training plan for 2022-23 is at agenda item 12. All training actions have now completed.
- The Board appointment process has been drafted and will be presented at the April 2022 meeting.
- A bespoke declaration of interests form was presented at the January 2022 meeting and sent to all members. A register of interests will be compiled and brought to the April meeting. This will be published on the website once approved.

Administration

- Scheme specific data scores will be undertaken when the Civica implementation is completed, which is now scheduled for May 2022. The LPB will be updated on progress in July 2022.

- Data strategy document will be finalised once the new Civica/UPM software is implemented.

Resolving Issues

- Training on 'breaches of law'' will be arranged for the April 2022 meeting for Board members, PAP and officers.

Community, Equalities (including socio-economic) and Health Impacts

4. Community Impact Statement

No immediate implications arising

5. Equalities (including socio-economic) Impact Statement

No immediate implications arising

6. Health Impact Statement

No immediate implications arising

7. Climate Change Implications

No immediate implications arising

8. **Resource Implications**

No immediate implications arising

9. Legal Implications

No immediate implications arising

10. Financial Implications

No immediate implications arising

11. **Consultation**

No immediate implications arising

AUDIT TRAIL

Lead Officer	Duncan Whitfield	
Report Author	Geraldine Chadwick	
Version	Final version	
Dated	11 January 2022	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	Comments Included
Director of Law and Democracy	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
List other officers here		
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		N/A

Appendix 1- Updated Action Plan for January 2022

Area	Category	Status	Recommendations	Timeframe / Responsible	Complete	Notes
1. Governing your Scheme						
1.1 Knowledge and Understanding Required by Pension Board Members						
Pension board members should have knowledge of how AVC arrangements operate, investments and performance and payment of contributions	Should	Not Met	Planned LPB training on AVC's should take place shortly (including content of COP45)	October 2021 LPB meeting - **BB**	√	AVC training on October 2021 agenda and will be delivered by Deborah Patten.
Comprehensive training plan in place - global and individual level (from induction onwards)	Should	Partially Met	1. That the training analysis exercise is completed and a comprehensive training plan is produced	**CW** - January 2021 LPB meeting	√	Comprehensive LPB training plan agreed at January 2021 LPB meeting
			2. Named person is designated to take responsibility for ensuring training plan is developed and implemented	**Complete - CW -** named person CW	√	
			3. Personalised training plan for each board membe	**CW** - October 2021	√	Individualised training plans will be updated to incorporate the CIPFA knowledge training programme for audit committee members. This a separate agenda item.
			4. Update document list and establish a central document store for documents members may need	**CW - October** 2021	√	The new pensions website holds a section on key documents
1.2 Conflicts of Interest & Representation						
LPB members (and proposed appointments) must provide required documents to satisfy they don't have a conflict of interest	Must	Not Met	1. Annual declaration of interest exercise scheduled for completion by board members (and proposed appointments) to provide docs to scheme manager to satisfy no conflict of interest. Include in the pension board forward plan	**CW** - by January 2021 LPB meeting	√	1. Declaration of interests form will be distributed by email to LPB members by December 2020. 2. Receipt of forms and completion of exercise confirmed at January 2021 LPB meeting
	Should	Not Met	2. A Board appointment process is prepared and published	**CW** - April 2022 LPB meeting	In progress	Document drafted - will be brought to April 2022 LPB meeting for approval.
			3. Keep a register of interests which is circulated annually to pension board members and is published	**CW** - April 2022 LPB meeting	In progress	Declaration of interest form send to all board members, register to be compiled from returns and reported in April 2022.
			4. New members disclose interests that could become a conflict before appointment 5. Prepare a conflicts policy and procedure for the board	**CW** - by July 2021 LPB meeting	√	Document approved at July 2021 LPB meeting
1.3 Publishing Information About the Scheme						
Published information about the pension board must be kept up to date	Must	Not Met	Bring website up to date with LPB membership	Complete - **BB/CW** - this is up to date on new website see https://southwarkpensions.co.uk/about-us/local-pension-board	√	
Schemes should have policies and processes to monitor all published information	Should	Not Met	1. Add a point to the checklist within a Board appointment procedure to be published	Q1 2021 - **BB/CW**	Board appointment process in draft and will be published on website once approved in April 2022.	
			2. Procedure to monitor published information such as latest Board minutes so members are aware	**CW - October** 2021	√	Meeting packs will be published within 7 working days
Properly constituted pension board should be in place	Should	Partially Met	Review Council approval process for LPB Terms of Reference and take actions to complete the approval of the latest version	**CW - April 2021**	√	LPB terms of reference within the council's constitution (24 March 2021)
2. Managing Risks						
2.1 Internal Controls						
Separate Council risk policy for pension fund	Should	Partially Met	That a risk policy is prepared for the pension function	Q2 2021 - **BB/CW**	√	
Risk register - ownership of risks	Should	Partially Met	Amend the risk register to include an owner for each risk	by December 2020 - **BB/CW**	√	
Risk register - frequency of review	Should	Partially Met	Risk register is reviewed by pensions board quarterly	Complete - **CW** - Current policy is to formally review twice a year unless critical amendments are made - considered to be adequate	√	
Pensions administration policies and procedures	Should	Partially Met	1. Processes and procedures for admin function reviewed on regular basis to ensure remain complete as the restructure of the administration function is completed	Q2 - 2021 - **BB**	√	a) Covered as part of Civica UPM roll out b) a full review of all processes, letters will be done
			2. Consider requesting Internal Audit to review of internal controls and operational efficiency once restructure is complete	October 2021 - **BB**	√	Terms of Reference now agreed with internal audit - agreed start date is first week of November.
			3. Further KPIs requested by the Board should be reviewed, put into action and reported on a quarterly basis	Q1 2021 - **BB**	√	a) The Chair will request any KPI's/changes from Pensions Manager. b) Pensions Manager will incorporate those changes into quarterly stats (or inform Chair if an alternative format is necessary due to current admin IT restrictions). c) A wider KPI review will take place post Civica/UPM implementation.

Area	Category	Status	Recommendations	Timeframe / Responsible	Complete	Notes
3. Administration						
3.1 Scheme Record Keeping						
Member data should be regularly evaluated, continually reviewed and a data review exercise carried out	Should	Not Met	Annual exercise to produce a Common and Scheme Specific data score. Reported in Scheme Return and to the Pension Board	July 2022 - **BB**	a) and b) is completed.	a) Data Team will manage this process. b) Common Score completed c) Process of reporting scheme specific scores will be undertaken when Civica implementation is completed, now May 2022. The LPB will be updated on progress later in 2022/post GO LIVE.
Data improvement plan	Should	Not Met	Put data improvement plan in place where initiatives can be monitored	For January 2021 LPB meeting - **BB**	√	Data improvement plan in place that tackles common data issues with a particular focus on schools data and historical gaps in data. In addition there are a number of ongoing data cleansing initiatives as a result of project work that we do with the actuary Aon (year-end closure, ABS for example).
Data cleaning	Should	Not Met	Data cleaning, data flow, filling of vacancies should continue to have focus and resources applied to them to enable the requirements of the Code to be met	Q1 2021 - **BB**	√ and ongoing.	a) follows from data improvement plan being set up b) New Data Officer appointed c) Numerous clean up exercises taking place as part of migration of data from Altair to UPM.
Data Strategy Document	Should	Not Met	1. The planned data strategy document should be completed and presented to the LPB and PAP	April 2022 - **BB**	In draft.	This will be completed once Civica/UPM is fully implemented, as the new system has different ways of capturing pensions data.
			2. Continue to encourage employers to use iConnect for submission of data	by December 2020 - **BB**	√	a) all employers now on boarded b) Process in place for monitoring month end submissions broken down by payroll provider and then appropriate school/employer c) Robust escalation process for employers who are repeat offenders is completed
3.2 Maintaining Contributions						
Maintain records of investigations of payment failures including asking the employer questions to form part of the decision to report to the Regulator Consider whether it is appropriate to report failure of employer contributions to scheme members	Should	Not Met	1. Reporting breaches of the law policy should be reviewed against the Code and updated to cover the potential to report non payment of employer contributions to members	**CW - April 2022**		1. Policy will be reviewed and updated to cover non payment of employer contributions 2. Process for considering notifying scheme members will be reviewed
Contributions monitor and Breaches of the Law Register should contain sufficient information to evidence requirements are fully met and if identified underpayments were paid.	Should	Partially Met	2. The breaches of the law register should be reviewed and revised to include evidence of when issues are resolved, that investigations have taken place and records kept. 3. Breaches of law register is fully completed to assess materiality and presented to LPB at each meeting	**CW - April 2022**	Will be completed as part of improvement plan for closing accounts	3. Document will be revised to include recommendations
Procedure on monitoring contributions	Should	Not Met	4. Contribution monitoring record enhanced to provide more detail to meet requirements of the code			4. Contribution monitoring record will be revised to comply with code. The contributions reconciliation process is currently being reviewed to ensure it is fully robust and complies with all requirements.
3.3 Providing Information to Members						
Must provide certain information to scheme members under various legislation	Must	Not Met	Transfer deadlines and no evidence that basic scheme information is provided within two months of request	Q1 - 2021 - **BB**	√	Complete and being monitored as part of regular KPIs. All transfer work back with Pension Services from Aon. Missing schools data has now been sorted and transfers processed.
Annual Benefit Statements (ABS) delivered on time	Should	Partially Met	Communications such as ABS are shown and tested to the pensions board for comments on understanding	July 2021 (and annually thereafter) - **BB**	√	2021 ABS exercise includes additional process to share early draft ABS documents to Board. ABS newsletter is currently being produced by AON and will be shared with the Board by the end of July.
Auto-response should acknowledge email enquiry and give a timescale for when a response will be sent	Should	Partially Met	Sufficient resource or temporary resource should be incorporated into the team to enable correspondence to be addressed in a timely manner	Complete - **BB**	√	Out of office already exists. Email inbox checked regularly. CRM (Contact Centre) queries are dealt with (and can be reported on). 2 agency staff present.
4 Resolving Issues						
4.1 Internal Dispute Resolution						
Effectiveness of the arrangements should be assessed	Should	Not Met / Partially Met	1. The effectiveness of the IDRP arrangements are assessed, including that the requirements are complied with including timescales and the effectiveness of decision making 2. IDR document made reference to TPAS and not Money and Pensions Service	January 2021 - **BB**	√	a) Internal senior pensions staff have all had IDRP training but this needs to be rolled out to new and existing HR colleagues also named as adjudicators under IDPR policy. IDRP training will be an annual mandatory requirement for all IDRP adjudicators. b) IDRP is under continuous review c) Training is offered to all new IDRP adjudicators. d) Pensions Manager is former Senior Casework Manager at TPO and well versed in complaint management.

Area	Category	Status	Recommendations	Timeframe / Responsible	Complete	Notes
4.2 Reporting Breaches of the Law						
Breaches of the Law register should record the reporting of breaches	Should	Partially Met	Complete register on a timely basis. Assess materiality to demonstrate consideration has been given to judging whether a breach must be reported	by December 2020 (post training) - **BB/CW**	√	Register is kept of data breaches and updated monthly.
Breaches of the Law register should be reported to the Pensions Board at each meeting.			All data breaches are reported to the information governance officer and monthly to the Section 151 officer. Twice yearly all breaches are reported to the Corporate Governance panel (CGP) to comply with internal procedures. Those breaches that must be reported to the Pensions Regulator are reported immediately to the CGP and to the LBP.		√	New procedure for reporting data breaches implemented in June 2021.
Breaches of the Law register - training programme	Should	Partially Met	Officers, the pensions advisory panel and pension board receive training on the procedure	**April 2022 - BB**	In progress	Training to be delivered at April 2022 meeting covering admin, data and finance areas.

Item No. 10	Classification: Open	Date: 19 January 2022	Meeting Name: Local Pension Board
Report title:		GAD's Section 13 Report on 2019 Valuations	
From:		Senior Finance Manager, Treasury & Pensions	

Recommendations

The LPB is asked to:

1. Note the Government Actuary's Department (GAD) section 13 report included as Appendix 1 of this report.

2. Note the recommendations made by GAD to the Scheme Advisory Board (SAB) in relation to the 2022 valuations.

Background

3. The Government Actuary Department (GAD) report under section 13 of the Public Services Pensions Act 2013, concerning the 2019 LGPS actuarial valuations in England and Wales, was published in December 2021.

4. The full report is included as Appendix 1. The detailed results are contained in a separate Appendices document, which is included as Appendix 2 to this report.

5. Under Section 13, GAD (as the actuary advising DLUHC) are required to consider whether in the valuations the aims of compliance with the Regulations, consistency, solvency and long term cost efficiency have been met.

SAB Standardised Basis Funding Level

6. In relation to the consistency objective, Appendix B of GAD's Appendices document includes some comparisons across funds. This includes disclosure of funding levels on the SAB Standardised Basis which although not a suitable

basis for funding has been used as a measure for comparing the funding levels of LGPS funds on an identical, common basis. Although a relatively crude measure for comparing funding strength, many in the LGPS world are quite interested in this comparison.

7. The relevant comparison is included in Chart B1 on page 12 of the Appendices – the funding level at 31 March 2019 on the actual (local) valuation basis is compared on the left and the funding level on the SAB standardised basis is shown on the right.

8. Southwark's funding level on the SAB Standardised Basis is 112%, compared to 103% on the actual valuation basis.

Solvency and Long Term Cost Efficiency Measures

9. The tables in the Appendices on pages 30 to 34 (solvency measures) and pages 42 to 46 (long term cost efficiency measures) show where each fund has been rated under the various metrics assessed by GAD. (Page 12 of the main report provides a definition of the various colour flags). All flags are green for Southwark for all measures.

Recommendations for the 2022 Valuations

10. GAD has made a number of recommendations which could flow through into the 2022 valuation process. These are listed below:

    I. The SAB should consider the impact of inconsistency on the funds, participating employers and other stakeholders. It should specifically consider whether a consistent approach needs to be adopted for conversions to academies, and for assessing the impact of emerging issues including McCloud.

    II. We recommend that the SAB 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.

    III. We recommend fund actuaries provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard.

IV. We recommend the SAB review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around any such transfers to achieve long-term cost efficiency.

Community, Equalities (including socio-economic) and Health Impacts

11. Community Impact Statement

No immediate implications arising.

12. Equalities (including socio-economic) Impact Statement

No immediate implications arising

13. Health Impact Statement

No immediate implications arising

14. Climate Change Implications

No immediate implications arising

15. Resource Implications

No immediate implications arising

16. Legal Implications

No immediate implications arising

17. Financial Implications

No immediate implications arising

18. Consultation

No immediate implications arising

AUDIT TRAIL

Lead Officer	Duncan Whitfield	
Report Author	Caroline Watson	
Version	Final version	
Dated	12 January 2022	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	Comments Included
Director of Law and Democracy	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
List other officers here		
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		N/A

Government Actuary's Department

Local Government Pension Scheme England and Wales

Section 13 Report as at 31 March 2019

November 2021

Martin Clarke FIA and John Bayliss FIA

Contents

At GAD, we seek to achieve a high standard in all our work. We are accredited under the Institute and Faculty of Actuaries' Quality Assurance Scheme. Our website describes **the standards** we apply.

1 Executive Summary

1.1 The Government Actuary has been appointed by the Department for Levelling Up, Housing and Communities (DLUHC) to report under section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the funds in the Local Government Pension Scheme in England and Wales ("LGPS" or "the Scheme").

1.2 Section 13 requires the Government Actuary to report on whether the following aims are achieved:

> Compliance

> Consistency

> Solvency

> Long term cost efficiency

1.3 This is the second formal section 13 report. Section 13 was applied for the first time to the fund valuations as at 31 March 2016. We refer to this as the 2016 section 13 report. The 2016 section 13 report was published in September 2018.

1.4 This report is based on the actuarial valuations of the funds, other data provided by the funds and their actuaries, and a significant engagement exercise with relevant funds. We are grateful to all stakeholders for their assistance in preparing this report. We are committed to preparing a section 13 report that makes practical recommendations to advance the aims listed above. We will continue to work with stakeholders to advance these aims and expect that our approach to section 13 will continue to evolve to reflect ever changing circumstances and feedback received.

Progress since 2016

1.5 We made five recommendations as part of the 2016 section 13 report. In summary we recommended that:

1. Standard information should be provided in a uniform dashboard format to facilitate comparisons between funds.
2. Consideration should be given to how greater clarity and consistency of actuarial assumptions could be achieved.
3. A common basis for academy conversions should be sought.
4. Within a named closed fund a plan should be put in place to ensure that benefits are funded in the event of insufficient contributions and exit payments.
5. Recovery plans could be demonstrated to be consistent with CIPFA guidance.

1.6 We are pleased to note good progress in relation to recommendations 1, 4 and 5. However we note that further progress is needed in relation to recommendations 2 and 3.

1.7 We set out our comments on this progress in more detail in Chapter 3.

Overall Comments

1.8 In aggregate the funding position of the LGPS has improved since 31 March 2016; and the scheme appears to be in a strong financial position, specifically:

> Total assets have grown in market value from £217 bn to £291 bn

> Total liabilities disclosed in the 2019 local valuation reports amounted to £296 bn. The local bases are required to be set using prudence

> The aggregate funding level on prudent local bases has improved from 85% to 98% (at 2019)

> The improved funding level is due in large part to strong asset returns over the 3 year period to 31 March 2019. Equities in particular performed strongly, averaging a return of circa 10-12% pa over the period. Funding also improved due to the continuation of substantial financial contributions from most LGPS employers

> The aggregate funding level on GAD's best estimate basis is 109% (at 2019). GAD's best estimate basis is the set of assumptions derived by GAD without allowance for prudence. There is a 50:50 likelihood of the actual experience being better or worse than the best estimate assumption, in our opinion

> We note that the size of funds has grown significantly over the three years to 31 March 2019. However, the ability of tax backed employers to increase contributions if this was to be required (as measured by their core spending power) has not kept pace. This could be a risk if, for example, there was to be a severe shock to return seeking asset classes

1.9 We set out below our findings on each of the four aims and our recommendations.

Compliance

1.10 Our review indicated that fund valuations were compliant with relevant regulations. However greater clarity on the assumptions used to determine contributions in the Rates and Adjustment certificate for some funds would be helpful.

Consistency

1.11 We interpret "not inconsistent" to mean that methodologies and assumptions used, in conjunction with adequate disclosure in the report, should facilitate comparison by a reader of the reports. Local circumstances may merit different assumptions. For example financial assumptions are affected by the current and future planned investment strategy, and different financial circumstances might lead to different levels of prudence being adopted.

1.12 Further to our recommendation as part of the 2016 section 13 report, we are pleased to note all funds have adopted a consistent "dashboard". We consider this a useful resource to aid stakeholders' understanding, because information is presented in a consistent way in the dashboards. We have suggested a few minor changes to further assist stakeholders going forward.

1.13 However, even given consistency in presentation in the dashboards, differences in the underlying methodology and assumptions mean that it is not possible to make a like for like comparison. We encourage further discussion on how assumptions are derived based on local circumstances in valuation reports.

1.14 We welcome the improvements of the evidential consistency of key assumptions, fund actuaries have provided more consistent rationalisation of assumptions in funding strategy statements. However, we note there appear to remain some areas of inconsistency. Furthermore, there are particular inconsistencies in the way Academy conversions are carried out in different funds, which derive from different valuation approaches. We believe that there are substantial benefits to improving consistency which are discussed later in the report.

Recommendation 1:
The Scheme Advisory Board should consider the impact of inconsistency on the funds, participating employers and other stakeholders. It should specifically consider whether a consistent approach needs to be adopted for conversions to academies, and for assessing the impact of emerging issues including McCloud.

Solvency

1.15 As set out on the CIPFA website in CIPFA's Funding Strategy Statement Guidance, the employer contribution rate is appropriate if:

> the rate of employer contributions is set to target a funding level for the whole fund of 100% over an appropriate time period and using appropriate actuarial assumptions

and either:

> employers collectively have the financial capacity to increase employer contributions, should future circumstances require, in order to continue to target a funding level of 100%

or

> there is an appropriate plan in place should there be an expectation of a future reduction in the number of fund employers, or a material reduction in the capacity of fund employers to increase contributions as might be needed

1.16 Over the three years to 31 March 2019, funds' assets have grown by around a third and liabilities by around 15%. However, the size of the employers has not grown at the same pace. This increases the risk to funds if, for example, there was to be a sustained reduction in the value of return seeking assets. This represents a general increase in risk for the LGPS as a whole, so we provide a general risk comment (rather than focus on any individual funds).

1.17 In GAD's view, the prevailing economic conditions have deteriorated between 2016 and 2019. Many funds have reduced their contribution rates as a result of the improvement of their funding position. In our opinion, for some funds, the deterioration in economic conditions may have warranted a strengthening of the valuation basis, resulting in a requirement to maintain or increase contributions.

1.18 We have performed an asset liability modelling (ALM) exercise for the scheme as a whole. This modelling illustrated:

> potential for material variability around future employer contribution rates (the current investment strategy includes a high proportion of equity investments which contribute to this variability but has the upside potential of greater expected long term investment returns)

> the potential impact on funding levels if there were to be constraints on the level of employer contributions

1.19 The following risk comment highlights the ongoing risk that pension funding presents to local authorities. We are not suggesting administering authorities and their advisors are unaware of this risk, but we have illustrated possible implications in our ALM.

General risk comment

Local authorities have finite resources and in recent years the size of pension funds has increased considerably more than local authority budgets. Given that pension funding levels change it is not unlikely that a period of increased pension contributions may be required at some point in the future.

If additional spending is required for pension contributions this may lead to a strain on local authority budgets.

We would expect that administering authorities are aware of this risk in relation to solvency and would monitor it over time. Administering authorities may wish to discuss the potential volatility of future contributions with employers in relation to overall affordability.

Long term cost efficiency

Under solvency and long term cost efficiency we have designed a number of metrics and raised flags against these metrics to highlight areas where risk may be present, or further investigation is required, using a red/amber/green rating approach. Where we do not expect specific action other than a general review, we have introduced a white flag.

1.20 As set out in CIPFA's Funding Strategy Statement Guidance, we consider that the rate of employer contributions has been set at an appropriate level to ensure long term cost efficiency if it is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

1.21 In 2019 we are flagging four funds as raising potential concern in relation to long term cost efficiency; this is two fewer than in 2016.

1.22 For two funds we are concerned that employer contributions are too low, as indicated by flags on a combination of GAD's deficit period, required return and return scope measures.

1.23 For a further two funds we are concerned that employer contribution rates are decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery is being extended further into the future (increasing the burden on future taxpayers).

1.24 During our review, we engaged with a number of funds with concerns in relation to a combination of deficit period, required return and return scope measures. We are pleased to note that, following these discussions, we were able to take into account a post valuation asset transfer in respect of one fund and allow for a firm commitment to make additional contributions in respect of a further fund. As a result, we have not raised long term cost efficiency amber flags in respect of these two funds.

1.25 In the 2016 section 13 exercise, we noted that several funds were extending their deficit recovery end points and recommended that funds reviewed their funding strategy. Whilst we note the improved funding position has reduced or removed deficits for some funds, where a deficit remains, we are pleased to observe that most funds in 2019 have maintained their deficit recovery end points.

1.26 However, this does not appear to be the case for two funds which we have flagged on this measure.

1.27 We note that different approaches have been taken by different actuarial advisors to determine deficit recovery plans. Whilst we acknowledge that different approaches may be appropriate, it is important for stakeholders to be able to assess how the deficit recovery plan changes over time. We have therefore made a recommendation to extend the information provided, and the appendices include the information to be provided.

Recommendation 2:
We recommend the Scheme Advisory Board 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.

Recommendation 3:
We recommend fund actuaries provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard.

1.28 Some councils have made or may be considering asset "gifts" to their pension funds. These arrangements are novel, may be complex and in some cases are established with a long time horizon. For these reasons, the governance around any such asset transfer arrangements requires careful consideration.

Recommendation 4:
We recommend the Scheme Advisory Board review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around any such transfers to achieve long term cost efficiency.

2 Introduction

What is Section 13?

The Government Actuary has been appointed by the Department for Levelling Up, Housing and Communities (DLUHC) to report under section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the 88 funds in the Local Government Pension Scheme in England and Wales ("LGPS" or "the scheme").

This is the second formal section 13 report and sets out the Government Actuary's findings following the fund valuations as at 31 March 2019.

Section 13 was applied for the first time to the fund valuations as at 31 March 2016, following a "dry run" which was undertaken as at 31 March 2013.

What are Local Government Pension Scheme valuations?

The LGPS is a funded scheme and periodic assessments are needed to ensure the fund has sufficient assets to meet its liabilities. Employer contribution rates may change depending on the results of valuations. Scheme regulations set out when valuations are to be carried out.

Each LGPS pension fund is required to appoint their own fund actuary, who carries out the fund's valuation. The fund actuary uses a number of assumptions to value the liabilities of the fund. Costs are split between those that relate to the past (the past service cost) and those that relate to the future (the future service cost). The results of the valuation may lead to changes in employer contribution rates for both future and past service costs.

2.1 This report is addressed to the Department for Levelling Up, Housing and Communities (DLUHC) as the responsible authority for the purposes of subsection (4) of section 13 of the Public Services Pensions Act 2013 ("the Act"). GAD has prepared this paper to set out the results of our review of the 2019 funding valuations of LGPS. This report will be of relevance to administering authorities and other employers, actuaries performing valuations for the funds within LGPS, the LGPS Scheme Advisory Board (SAB), HM Treasury (HMT) and the Chartered Institute of Public Finance & Accountancy (CIPFA) as well as other LGPS stakeholders.

2.2 As at 31 March 2019 there were 88 funds participating in the LGPS, excluding the West Midlands Integrated Transport Authority Pension Fund which merged with the West Midlands Pension Fund on 1 April 2019.

2.3 In addition to requirements under section 13 of the Public Service Pensions Act 2013 outlined above, the Scheme Advisory Board has established Key Performance Indicators. These state that "the SAB considers that maintaining and improving the overall performance of the LGPS is best done by focusing on improving key financial and governance metrics of "under-performing" funds, and concurrently seeking to raise the level of performance of "average" funds to that of the "highest performing" funds."

2.4 Subsection (4) of section 13 requires the Government Actuary as the person appointed by DLUHC to report on whether the four main aims are achieved, namely:

> 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 Local Government Pension Scheme England and Wales (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

2.5 Section 13, subsection (6) states that if any of the aims of subsection (4) are not achieved

a. the report may recommend remedial steps

b. the scheme manager must—

i. take such remedial steps as the scheme manager considers appropriate, and

ii. publish details of those steps and the reasons for taking them

c. the responsible authority may—

i. require the scheme manager to report on progress in taking remedial steps

ii. direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.

Identifying if the aims of section 13 are met

2.6 We have looked at a range of metrics to identify exceptions under the solvency and long term cost efficiency objectives. Each fund is given a colour coded flag under each measure, where:

Key

RED indicates a material issue that may result in the aims of section 13 not being met. In such circumstances remedial action to ensure solvency and/or long term cost efficiency may be considered.

AMBER indicates a potential material issue that we 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.

WHITE is an advisory flag that highlights a general issue but one which does not require an action in isolation. It may have been an amber flag if we had broader concerns.

GREEN 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.

2.7 The trigger points for these flags are based on a combination of absolute measures and measures relative to the bulk of the funds in scope at a point in time. Where appropriate we have maintained consistency with the approach adopted in 2016.

2.8 While they should not represent targets, these measures and flags help us determine whether a more detailed review is required. For example, we would have a concern where multiple measures are triggered amber for a given fund.

2.9 It should be noted that these flags are intended to highlight areas where risk may be present, or further investigation is required. For example, where an amber flag remains following engagement, we believe this relates to an area where some risk remains that administering authorities and pension boards should be aware of. There is no implication that the administering authority was previously unaware of the risk.

2.10 A green or white flag does not necessarily indicate that no risk is present and similarly the fact that we are not specifically suggesting remedial action does not mean that scheme managers should not consider actions.

2.11 We have had regard to the particular circumstances of some funds, following engagement with the administering authority and the fund actuary. In some cases, the action taken or proposed has been sufficient to remove flags. We have described these outcomes in the relevant sections below.

2.12 The figures shown in the tables in this report are based on publicly available information and/or information provided to GAD.

2.13 Further detail is provided in the solvency and long term cost efficiency chapters and appendices. In addition we have considered the overall funding position of the funds within the LGPS in our funding analysis report published alongside this document.

2.14 Local valuation outputs depend on both the administering authorities' Funding Strategy Statements and the actuary's work on the valuation. We have reported where valuation outcomes raised concerns in relation to the aims of section 13. It is not our role to express an opinion as to whether that conclusion was driven by the actions of authorities or their actuaries, or other stakeholders.

2.15 The following key has been used to identify the actuarial advisers for each fund:

Aon
Barnett Waddingham
Hymans Robertson
Mercer

2.16 The Environment Agency Closed Pension Fund is different from other LGPS funds. The benefits payable and costs of the fund are met by Grant-in-Aid funding by the Department for Environment, Food and Rural Affairs, thus guaranteeing the security of these benefits. Details of this can be found in the Environment Agency Closed Pension Fund valuation published on the LGPS SAB website. In general, the fund has been excluded from the analyses that follow.

2.17 More generally it is important to note that this report focuses on the funding of future member benefits. The calculation of members' benefits is set out in regulations. Consequently, the benefits paid to members are not dependent on the funding position of any particular fund.

Limitations

2.18 We recognise that the use of data and models has limitations. For instance, the data that we have from valuation submissions and publicly available financial information is likely to be less detailed than that available to funds. Our risk assessment framework enables us to broadly assess scheme risks and decide on our engagement with schemes on an indicative basis.

2.19 Because of the nature of this exercise, generally only post valuation experience allowed for in the valuation disclosures has been taken into account. However, where we have engaged with funds regarding their long term cost efficiency and a firm commitment has been made to improving the fund position, this has been recognised.

Standardised basis

2.20 There are some areas of inconsistency highlighted in Chapter 5, which make meaningful comparison of valuation results set out in local valuations reports difficult.

2.21 To address this, we have referred to results restated on two bases:

> The standard basis established by the SAB, as calculated by fund actuaries

> A best estimate basis consistent with market conditions as at 31 March 2019 derived and calculated by GAD

2.22 This use of standardisation does not imply the bases are suitable to be used for funding purposes as we would expect a funding basis to be consistent with the market and prudent. We note that:

> The SAB standard basis is not consistent with current market conditions

> The GAD best estimate basis is based on our views of likely future returns on each broad asset class across the Scheme. Regulations and CIPFA guidance call for prudence to be adopted when setting a funding basis. Our best estimate basis does not include prudence and is based on the average investment strategy for the overall Scheme, so will not be pertinent to any given fund's particular investment strategy. Further, we do not take into account any anticipated changes in investment strategy that may be planned/in train

2.23 The local valuations and our calculations underlying this report are based on specific assumptions about the future. Some of our solvency measures are stress tests but these are not intended to indicate a worst case scenario.

Future review

2.24 We are grateful to stakeholders for their assistance in preparing this report. We are committed to preparing a section 13 report that makes practical recommendations to advance the aims in the legislation. We will continue to work with stakeholders to advance these aims and expect that our approach to section 13 will continue to evolve to reflect ever changing circumstances and feedback received.

Appendices

2.25 Appendices are contained in a separate document.

Other important information

2.26 The previous section 13 report was published on 27 September 2018 following the valuations as at 31 March 2016 details of which can be found in the Local Government Pension Scheme: review of the actuarial valuations of funds as at 31 March 2016.

2.27 GAD has no liability to any person or third party other than DLUHC for any act or omission taken, either in whole or in part, on the basis of this report. No decisions should be taken on the basis of this report alone without having received proper advice. GAD is not responsible for any such decisions taken.

2.28 In performing this analysis, we are grateful for helpful discussions with and cooperation from:

- Actuarial advisors
- CIPFA
- DLUHC
- Fund administrators
- HM Treasury
- LGPS Scheme Advisory Board
- The Pensions Regulator (TPR)

We note that this report is GAD's alone and the stakeholders above are not responsible for the content.

2.29 GAD would like to acknowledge the commitment shown by the funds and their advisors, which is illustrated through the improvement in the funding position of funds since the previous valuation.

2.30 We understand and assume that there is no regulatory authority assumed by or conferred on the Government Actuary in preparing this or any future section 13 report. The appointment to report under section 13 does not give the Government Actuary any statutory power to enforce actions on scheme managers (or others).

2.31 In preparing this report, we are aware that our analysis may be affected by risks arising from the impact of the COVID-19 pandemic. At this stage, the full impact of the COVID-19 pandemic is not known and will remain uncertain until further evidence has been established. No margins have been applied to the analysis to reflect these risks unless otherwise stated.

2.32 This work has been carried out in accordance with the applicable Technical Actuarial Standard: TAS 100 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

3 Progress

We made five recommendations in the 2016 section 13 report. We have reported on the progress made against each of these recommendations in the table below:

2016 Recommendation	Progress
1: We recommend that the Scheme Advisory Board should consider how best to implement a standard way of presenting relevant disclosures in all valuation reports to better facilitate comparison, with a view to making a recommendation to the DLUHC minister in advance of the next valuation. We have included a draft dashboard in this report to facilitate the Scheme Advisory Board's consultation with stakeholders.	We are pleased to report that good progress has been made on this recommendation. The Scheme Advisory Board agreed standard disclosures which were included as an annex in each actuarial valuation report.
2: We recommend that the Scheme Advisory Board should consider what steps should be taken to achieve greater clarity and consistency in actuarial assumptions, except where differences are justified by material local variations, with a view to making a recommendation to the DLUHC minister in advance of the next valuation.	Some progress appears to have been made in this area. Fund actuaries have engaged with the Scheme Advisory Board and provided more consistent rationalisation of assumptions in funding strategy statements. However there remains some evidence of inconsistency.

2016 Recommendation	Progress
3: We recommend that the Scheme Advisory Board seeks a common basis for future conversions to academy status that treat future academies more consistently, with a view to making a recommendation to the DLUHC minister in advance of the next valuation.	The Scheme Advisory Board established a working group in 2018, including stakeholders with a range of perspectives, and discussed a variety of options for achieving a common basis for academy conversion. However, a common basis has not yet been implemented and further discussions are necessary to determine if a common basis is achievable and if so what that should consist of.
4: We recommend that the administering authority put a plan in place to ensure that the benefits of members in the West Midlands Integrated Transport Authority Pension Fund can continue to be paid in the event that employers' contributions, including any exit payments made, are insufficient to meet those liabilities.	We are pleased to report good progress regarding this recommendation. Following a public consultation, the West Midlands Integrated Transport Authority Pension Fund merged with the West Midlands Pension Fund with effect from 1 April 2019. The West Midlands fund merger consultation and the Government Response on the Proposed Merger of the West Midlands Integrated Transport Authority Pension Fund and West Midlands Pension Fund can be found at gov.uk
5: We recommend that all funds review their funding strategy to ensure that the handling of surplus or deficit is consistent with CIPFA guidance and that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.	We are pleased to report there has been progress on this recommendation with most funds now maintaining their deficit recovery end points. However, our analysis shows that further improvements could be made.

4 Compliance

Key Compliance findings

- All reports checked contained a statement of compliance
- The reports checked contained confirmation of all material requirements of regulation 62
- We concluded the aims of section 13 were achieved under the heading of Compliance in terms of valuation reporting

Under section 13(4)(c) of the Act, the Government Actuary must report on whether the actuarial valuations of the funds have been completed in accordance with the scheme regulations.

In this Chapter:

- **We set out our approach to reviewing compliance and our conclusions from that review**

Summary of compliance outcomes

4.1 Valuation reports materially complied with the regulations.

4.2 There is a great deal of consistency between the actuarial methodologies and the presentation of the actuarial valuation reports for funds that are advised by the same firm of actuarial advisors (see Chapter 5 on Consistency). Accordingly, GAD has selected one fund as a representative example from each of the firms of actuarial advisors and has assessed whether these reports have been completed in accordance with Regulation 62. The statutory instrument governing the publication of actuarial valuations for the LGPS in England and Wales is Regulation 62 of the Local Government Pension Scheme Regulations 2013.

4.3 We found that the actuarial valuation reports have been completed in accordance with Regulation 62 and have therefore concluded that the compliance criteria of section 13 have been achieved. We note that this is not a legal opinion.

4.4 We did note that whilst the regulations require a reference to the assumptions on which the Rates and Adjustment Certificate (the certificate setting out employer contributions) was given, this was not always clear. It would be helpful to ensure such information is clearly stated in future. We did not consider this to be material non-compliance.

4.5 In line with the required actuarial standards we noted that the four valuation reports reviewed contained confirmation that the required Technical Actuarial Standards had been met.

4.6 Our review of compliance is focused on the actuarial valuation reports produced under Regulation 62. We have not, for example, systematically reviewed Funding Strategy Statements prepared under Regulation 58.

4.7 The comments we make in subsequent chapters on consistency, solvency and long term cost efficiency do not imply that we believe that the valuations are not compliant with the regulations. These comments relate only to whether the valuations appear to achieve the aims of section 13.

5 Consistency

Key Consistency findings

- **Funds have adopted a consistent "dashboard" which greatly aids stakeholders' understanding. We expect this information will be available as an informative resource for all users going forward and have recommended some changes to further assist users.**
- **We welcome the observed move towards greater consistency in relation to key assumptions. We recognise that different advisors will recommend different assumptions. However, this makes comparability difficult. Stakeholders in the LGPS would benefit from greater comparability.**
- **We recommend the SAB gathers further evidence on consistency from stakeholders and considers what further steps could be taken to advance this objective, particularly in relation to future academy conversions and wider emerging issues.**

Section 13 requires that GAD must report on whether each actuarial valuation has been carried out in a way which is not inconsistent with other valuations. This requires both presentational and evidential consistency and is important to enable readers to make comparisons between different valuation reports.

In this Chapter we:

- **Provide some background on the legislation and importance of consistency**
- **Discuss presentational consistency with a focus on contribution rates**
- **Consider evidential consistency in more detail, looking at liability values, funding assumptions, McCloud treatment and academy conversions**
- **Comment on emerging issues and academies**
- **Conclude and make recommendations**

Presentational Consistency:

Information may be presented in different ways in different reports, and sometimes information is contained in some reports but not others (eg discount rate derived to determine future contribution rates), so readers may have some difficulties in locating the information they wish to compare. We call this presentational inconsistency.

Evidential Consistency:

When the reader has located the relevant information (eg funding levels), differences in the underlying methodology and assumptions mean that it is not possible to make a like for like comparison. We call this evidential inconsistency. We believe that local circumstances may merit different assumptions (e.g. financial assumptions are affected by the current and future planned investment strategy, different financial circumstances leading to different levels of prudence adopted) but that wherever possible information should be presented in a way that facilitates comparisons.

Importance of Consistency

5.1 LGPS is a common pension scheme locally administered by separate Administering Authorities. Section 13 requires valuations to be carried out in a way that is not inconsistent with other LGPS fund valuations. This is important to enable readers to draw comparisons between the results from two valuation reports. We also believe that there are greater benefits that could be attained by adopting a more consistent funding approach.

5.2 Where members are provided with identical benefits it is hard to justify large variations in the apparent cost of these benefits. This is particularly pronounced where one employer is participating in numerous different LGPS funds and can be required to contribute differing costs. In this situation it is increasingly important to understand what is driving the difference and ensure that this is clear to employers. The greater the difference in cost between different funds, the more significant this issue.

5.3 Furthermore, given the mobility of the workforce it is not unusual for members to transfer between funds. The greater the variation in different funding basis the greater the potential strain. In addition, in relation to bulk transfers protracted discussions on the appropriate transfer basis can result, which are not helped by differences in funding bases.

5.4 We also note that there is a common basis used for various calculations within the LGPS. Where this basis diverges from funding basis this can be a source of additional strain, which needs to be managed.

Presentational Consistency

5.5 As previously we note a high degree of similarity between reports produced by each consultancy. Therefore, we have taken at random a report produced by each actuarial advisor to assess whether the information disclosed is consistent across all four advisors. We do not have any specific concerns about these funds, which have been chosen at random and note none of the funds raise any amber or red flags. These funds are:

London Borough of Enfield Pension Fund (Aon)	London Borough of Sutton Pension Fund (Barnett Waddingham)
Derbyshire Pension Fund (Hymans Robertson)	Lancashire County Pension Fund (Mercer)

5.6 All funds completed information in the format of a standard dashboard, which was recommended as part of the 2016 section 13 exercise. The final format of the dashboard was agreed by the SAB. This includes the key information that one might expect to find in an actuarial valuation report and will be helpful to readers in comparing funding valuations.

5.7 Table B1 in Appendix B sets out the dashboard information required in the actuarial valuation reports for funds.

5.8 We note as previously each report contains a section that summarises the changes to the funding position since the 2016 reports, and these are presented in very similar ways, again making for easy comparison.

Contribution rates

5.9 Contribution rates include the following components:

> Primary Contribution Rate

> Secondary Contribution Rate

> Member Contribution Rate

5.10 The analysis below focuses on the employer contributions (the primary and secondary contributions payable by the employer). Total employer contributions expected to be received in the three years covered by the 2019 valuation are set out in the following table:

Table 5.1: Total Recommended Employer Contributions

Contribution	2020-21 £bn	2021-22 £bn	2022-23 £bn
Primary contributions	6.5	6.7	6.9
Secondary contributions	1.3	1.2	1.1
Total Employer contributions	7.7	7.9	8.1

The trend in secondary contributions may reflect some fund employers paying their secondary contributions in one lump sum to cover three years. Whilst this may be expedient for employers in the short term, and we do not object, we do encourage a focus on the longer term, and in particular budgeting over the whole deficit recovery period.

The primary contribution rates are easily found in the valuation reports for each fund, and, as they are all expressed as a percentage of pay, are easily comparable. The same is true of member contribution rates.

Secondary contribution rates are more complex. All actuarial advisors provide a detailed breakdown of the secondary contribution rates by employer for each of the next three years in their Rates and Adjustments Certificates.

Secondary Contribution Rates

5.11 Table 5.2 summarises the information about secondary contribution rates that is given in the valuation reports for the different actuarial advisors. We note that these are provided as cash amounts in each year in line with CIPFA guidance. In addition, three of the four reports also provide an alternative expression of the contributions.

Aon expressed the secondary contribution as both a fixed monetary amount and as a combination of monetary amount and a percentage of pay.

Barnett Waddingham expressed the secondary contribution as both a monetary amount and a percentage of pay.

Hymans Robertson expressed the secondary contribution as a monetary amount only

Table 5.2: Secondary Contribution Rates

Fund (Actuarial Advisor)	Secondary Contribution Rates 2020	2021	2022
London Borough of Enfield Pension Fund (Aon)	£2,099,000 or 1.3% of pensionable pay plus £8,100	£2,175,000 or 1.3% of pensionable pay plus £8,400	£2,253,000 or 1.3% of pensionable pay plus £8,700
London Borough of Sutton Pension Fund (Barnett Waddingham)	4.5% of pensionable pay or £4,879,000	4.5% of pensionable pay or £5,058,000	4.5% of pensionable pay or £5,242,000
Derbyshire Pension Fund (Hymans Robertson)	£17,432,000	£17,752,000	£18,079,000
Lancashire County Pension Fund (Mercer)	£3,200,000 or £9,300,000 less 0.6% of pensionable pay	£3,300,000 or £9,700,000 less 0.6% of pensionable pay	£3,400,000 or £10,000,000 less 0.6% of pensionable pay

Mercer expressed the secondary contribution as both a fixed monetary amount and a combination of a monetary amount and a (negative) percentage of pay.

5.12 All fund actuaries gave the equivalent monetary amount. In many cases, this is consistent with how they frame the advice to their clients. Only one fund actuary gave a single headline figure that summarises the average secondary contribution rate over the three post valuation years. In our view this is a helpful way to express those contributions, as it gives the reader a clear sense of the total employer contributions being paid in.

Table 5.3: Information provided on spreading surplus/deficit:

Fund	Information provided on spreading deficits
London Borough of Enfield Pension Fund (Aon)	Statement setting out spreading of deficit under 100% over maximum of 16 years and any surplus over 105% over 19 years
London Borough of Sutton Pension Fund (Barnett Waddingham)	Statement setting out spreading of deficit (maximum of 16 years)
Derbyshire Pension Fund (Hymans Robertson)	Provide recovery horizon set by employers instead of deficit recovery period. Detail provided in funding strategy statement.
Lancashire County Pension Fund (Mercer)	Statement setting out spreading of deficit and surplus including detail on funding level and maintenance of deficit recovery end point. Deficit recovery over average of 16 years

5.13 We note that whilst comparison of secondary contributions over the next three years is relatively easy, it is harder to understand what funds' objectives are to making good the deficit over the longer term. We recommend reviewing the information set out in the dashboard to consider if further data could be easily provided to address this issue. This is discussed further in the Chapter 7 on long term cost efficiency.

Comparison with prior valuation contribution rates

5.14 Regulations require contribution rates to be split into primary and secondary contribution rates for employers. This makes comparison with the previous valuation easier compared to earlier valuation cycles.

5.15 A comparison of aggregate employer rates is provided in some cases. In other cases, a comparison of primary rates only is provided, see table 5.4.

5.16 We consider it would be helpful for stakeholders to see a comparison and explanation of recommended primary and secondary contribution rates with those from the previous valuation. We also believe a comparison of the total level of contributions being paid into the fund is useful to enable the reader to make a comparison of the current and past contributions and to facilitate comparisons between funds. We suggest these additional items should be included in an updated dashboard (see Appendix B).

Table 5.4 Comparison with prior valuation contribution rates

Fund	Comparison provided
London Borough of Enfield Pension Fund (Aon)	Analysis of the change in primary contribution rates, and comparison of secondary rate and total rate (as a % of pay)
London Borough of Sutton Pension Fund (Barnett Waddingham)	Analysis of the change in primary contribution rates
Derbyshire Pension Fund (Hymans Robertson)	Comparison of primary rate (as % of pay) and secondary rate (as fixed monetary amounts)
Lancashire County Pension Fund (Mercer)	Breakdown of the primary employer contribution rate compared with the previous valuation

Evidential Consistency

5.17 We have considered whether the local fund valuations have been carried out in a way which is not inconsistent with each other. We have found that whilst inconsistencies in the methodologies and assumptions adopted remain, these are less pronounced than observed in 2016.

5.18 Primary contribution rates range between 14% and 22% in 2019. This range is a function of differences in age profile as well as different assumptions adopted. It is a slightly narrower range than that emerging following the 2016 valuations, which we take to imply an improvement in evidential consistency. The range of secondary contributions is wider reflecting different deficit/surplus levels of the individual funds.

5.19 The value assigned to liabilities in each actuarial valuation report has been calculated on assumptions set locally. Differing levels of prudence are to be expected and may be reflective of local variations in risk appetite, but care needs be taken when comparing results.

Reported liabilities

5.20 Table 5.5 shows a comparison of the local basis liability values vs liability values calculated using the SAB basis. Whilst there are also other reasons for differences between bases, this does illustrate the variation in levels of prudence adopted in each of the four valuations chosen, and therefore the difficulty in drawing conclusions based on liability values. See also charts B1 and B2 in Appendix B which compares local and SAB basis funding levels.

Table 5.5: Liability Values

Fund	Local Basis £m	SAB Standard Basis £m	Difference between Local and SAB Basis
London Borough of Enfield Pension Fund (Aon)	1,146	1,075	7%
London Borough of Sutton Pension Fund (Barnett Waddingham)	732	670	9%
Derbyshire Pension Fund (Hymans Robertson)	5,092	4,258	20%
Lancashire County Pension Fund (Mercer)	8,398	6,893	22%

5.21 The liability value on the local basis is higher than that calculated on the SAB standard basis for all funds in this sample. Across the four funds examined, the difference between the liabilities calculated on the two bases is between 7% and 22%. More widely across all funds the range is between -1% and 36%. As noted in paragraph 2.22, the SAB standard basis is not useful for assessing liabilities for funding purposes. However, this analysis illustrates the range of difference in liability values, and it is not clear the extent to which these are local differences which makes valuation reports difficult to compare directly.

5.22 The analysis above focuses on four funds chosen at random. It should not therefore be extrapolated to all funds advised by a particular advisor.

Assumptions

5.23 We compared the following key assumptions that need to be made for the actuarial valuations for all funds to consider whether variations in those assumptions are justified in terms of local conditions.

Discount Rate

5.24 The discount rate is the most significant assumption in terms of impact on the valuation results. We have therefore focused on the derivation of this assumption in this section. It is expected that different advisors will have different views on expected future investment returns, from which discount rates are derived.

5.25 The discount rate is used to value past service liabilities. A way of measuring the level of prudence included is to consider the implied asset outperformance within the discount rate (see Appendix B for more details). Note this applies to all assets, not just "return seeking" assets. The range of implied asset outperformance by actuarial advisor is set out in Chart 5.1 below.

Chart 5.1 Implied asset outperformance range

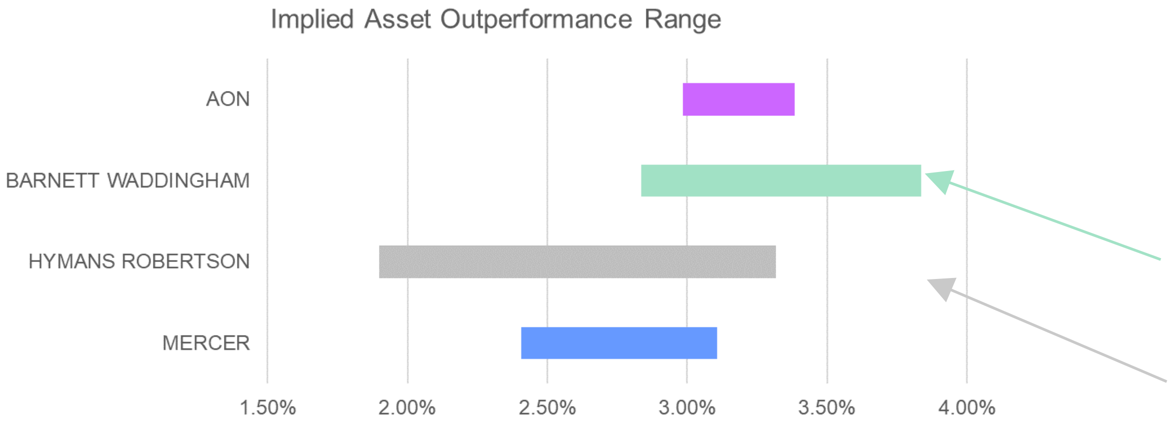


Chart 5.1 illustrates one aspect of the difference in assumptions applied by the four actuarial advisors (with the EA closed fund excluded)

Some funds advised by Barnett Waddingham have the highest level of outperformance within the discount rate used for assessing past service liability values.

Some funds advised by Hymans Robertson have the lowest level of asset outperformance within the discount rate.

5.26 Whilst there appears to be some link between the implied asset outperformance and the firm of advisors, the range of different assumptions is slightly narrower and overlap more than in 2016.

5.27 The implied asset outperformance in chart 5.1 relates to the discount rate for past service liabilities only. Whilst Aon and Barnett Waddingham adopt the same assumption for setting future contribution rates, Mercer and Hymans Robertson have different approaches.

5.28 Mercer’s approach allows for the fact that contributions made after the valuation date will receive a future investment return that is not directly linked to market conditions at the valuation date. This resulted in a higher discount rate assumption for setting future contribution rates than used to value past service liabilities.

5.29 Hymans Robertson use stochastic techniques leading to a probability of success (“meeting the funding target by the funding time horizon”) over a projection period (such as, for example, twenty years) to help set their contribution rates. GAD would encourage Hymans Robertson to disclose the effective discount rate used for setting future contributions, as required by CIPFA guidance in relation to Rates and Adjustment Certificates.

5.30 We would expect some fund by fund variation due to asset strategy and different levels of risk appetite, hence we do not consider the fact that funds adopt different discount rates to be a particular cause for concern. Future asset returns are highly uncertain, and hence there is a wide range of reasonable assumptions that may be adopted.

5.31 To aid comparison, we propose that the discount rate used for contribution rate setting (which may be different to the rate used for assessing past service liabilities) be disclosed in the dashboard (see Appendix B).

Other assumptions

5.32 We have compared the following assumptions used by funds advised by different actuarial advisors:

> Future mortality improvements

> Inflationary and economic salary increases

> Commutation assumptions

5.33 We expect assumptions to vary between funds. To aid transparency, this variation should be justified in relation to local circumstances. We are pleased to note improvements in some reports that reference local considerations in assumption setting. We encourage further progress in this area.

Emerging Issues

5.34 A number of issues affecting the LGPS are emerging. These issues require consideration from the funds and their advisors. We encourage dialogue with a view to treating these issues consistently in the 2022 valuation and beyond.

Climate risk

5.35 Two of the four funds reference climate change as a known risk within the valuation report as set out below. The other two funds may have considered this risk in ancillary advice but chose not to include within the valuation report.

5.36 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. 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.

Table 5.6 Reference to climate change within valuation report

Fund	Reference in valuation report
London Borough of Enfield Pension Fund (Aon)	Mentioned under other potential risks in valuation report
London Borough of Sutton Pension Fund (Barnett Waddingham)	Not mentioned in valuation report
Derbyshire Pension Fund (Hymans Robertson)	Mentioned under other risks and taken into account by administering authorities
Lancashire County Pension Fund (Mercer)	Not mentioned in valuation report

Allowance for COVID-19

5.37 As evidence emerges on the impact on mortality following the COVID-19 pandemic, we encourage dialogue to ensure a consistent approach is adopted in allowing for this.

Allowance for McCloud remedy

5.38 The government is committed to remedy age discrimination that arose when the LGPS was reformed in 2014. This is commonly referred to as McCloud remedy. At the time of the 2019 valuations there was considerable uncertainty around the possible McCloud remedy and hence cost impact. The Scheme Advisory Board advised in May 2019 that when setting employer contributions rates from 2020 it was appropriate for funds to: "consider how they approach (and reflect in their Funding Strategy Statement) the risk and potential extra costs around this matter in the same way as they would for other financial, employer and demographic risks." We note that all advisors have included an allowance for McCloud but the approach adopted varies. Table 5.7 show the treatment in each of the four funds chosen:

Table 5.7: McCloud treatment

Fund	McCloud treatment
London Borough of Enfield Pension Fund (Aon)	Converted calculated past service cost into a % of pay over the maximum recovery period plus a further addition to primary contribution rates
London Borough of Sutton Pension Fund (Barnett Waddingham)	McCloud allowed for in the derivation of the discount rate
Derbyshire Pension Fund (Hymans Robertson)	McCloud allowed for as additional prudence in setting employer contribution rates.
Lancashire County Pension Fund (Mercer)	Additional margin of prudence included in the discount rate to determine employer contribution rates.

5.39 There has been communication between actuarial advisors during the 2019 valuation when considering the allowance to be made for McCloud. Given that there is now greater certainty around the McCloud remedy we would expect a consistent and explicit calculation approach to be adopted at the next valuation.

Academies

5.40 A recommendation was made in the 2016 report that the Scheme Advisory Board should seek a common basis for future conversions to academy status, with a view to making a recommendation to the DLUHC Minister in advance of the next valuation.

5.41 Although the different treatments are not invalid, inconsistent treatment when academies are admitted can lead to differences in valuation outcomes. For this reason, it is an important element of section 13.

5.42 Whilst we are aware that initial discussions were held and an academies funding working group was established in early 2018, to consider amongst other things a common approach to assess the costs associated with academy conversion, a common basis has not yet been agreed and implemented.

5.43 We have limited data to consider the basis on which academy conversions have occurred. However, we have liaised with the actuarial advisors to request their input as summarised below:

Table 5.8: Advisors comments on whether a move to greater consistency has occurred

Actuarial advisor	Response to question "has there been a move to greater consistency for academy conversions?"
Aon	Aon confirmed that a move to greater consistency across all LGPS funds had not been observed, although improved funding levels may have resulted in more similarity in practice between different approaches. They also noted that consistency within a fund over time is important.
Barnett Waddingham	Barnett Waddingham confirmed that they have consistently adopted an active cover approach.
Hymans Robertson	Hyman Robertson commented "We are not aware of any significant change in approach by funds for the reason of ensuring consistent treatment of academy conversions with other funds. The approach used by each fund was, generally, formed in 2010/2011 when academy conversion first occurred. In the absence of any guidance from the Department of Education or DLUHC (DCLG at the time) about the pensions treatment of these new academies, the approach adopted by each fund was one that was in line with their approach to funding other employers in the fund and reflected what they thought fair to all stakeholders involved – the new academy, the

Actuarial advisor	Response to question "has there been a move to greater consistency for academy conversions?"
	ceding LEA and all other employers in the Fund. By the time the 2016 Section 13 report was published in Autumn 2018, there had been 8 years of academy conversions and as such there was little desire by funds to revisit their approach. Especially as they may have created a two-tier academy funding regime in the fund, and it is unlikely that one funds approach will provide the best funding outcome for another fund."
Mercer	Mercer confirmed that consistency applies to their Funds as they have generally applied the same principles i.e. that the contribution pre/post conversion is the same other than profile differences. Some Funds adopt variations on this but on a consistent basis. For Multiple Academy Trusts new academies will generally pay the pooled Multiple Academy Trust rate.

5.44 It appears that despite work by both the SAB and the actuarial firms, limited progress has been made to move towards a more consistent funding approach for academies. It would seem appropriate for the SAB to review whether the advantages of convergence should reignite this debate with the aim of taking more definitive steps towards a future convergence.

Table 5.9: Advisors comments on whether a move to greater consistency is likely to occur

Actuarial advisor	Response to question do you anticipate a more or less consistent approach being adopted in the future
Aon	Aon commented that a change in approach to make all funds more consistent would be difficult without a compelling reason such as legislation or SAB guidance. In respect of pooling of academies, they noted that there are arguments for pooling notwithstanding the inherent cross subsidies, but that academies aren't as homogenous a group as initially anticipated.
Barnett Waddingham	Barnett Waddingham commented that the same approach would be adopted for funds advised by Barnett Waddingham in future.
Hymans Robertson	Hyman Robertson commented: "As noted in the previous question [on whether there has been a move to greater consistency or not], academies have now participated in LGPS funds for over a decade and the approach used to allocate a starting funding position has likely been settled and consistent within each fund for a long period of time. Therefore, unless there was a significant change in the nature of academies as an employer, removal of the DfE guarantee or a particular approach mandated

Actuarial advisor	Response to question do you anticipate a more or less consistent approach being adopted in the future
	via regulation (which would also need to consider how historic conversions are managed), we would not anticipate any future change in the approach around academy conversion."
Mercer	Mercer commented that the consistency will remain the same until an approach is either mandated or further guidance is provided e.g. via the SAB

Recommendation 1:
The Scheme Advisory Board should consider the impact of inconsistency on the funds, participating employers and other stakeholders. It should specifically consider whether a consistent approach needs to be adopted for conversions to academies, and for assessing the impact of emerging issues including McCloud.

Conclusion

Improvements since 2016

We were pleased to note that generally there appeared to have been a move towards more consistent assumptions.

Previously we set out a possible dashboard to facilitate the Scheme Advisory Board's consultation with stakeholders and are pleased to note that all funds have included such a dashboard within their valuation reports. This has helped significantly in understanding the funds' approach. However, some items remain unclear and we think it would be helpful for stakeholders to be presented with clear information. We are working with the SAB to see how this can be achieved.

Objectives for improving consistency

We remain convinced of the advantages of achieving greater consistency. We therefore recommend engagement between the SAB and stakeholders to gain a better understanding of the issues and how steps towards greater consistency could be taken forward.

We encourage dialogue to aid consistency of approach between advisory firms, particularly for emerging issues of climate risk, COVID-19 and McCloud.

Examples of where the criterion may not have been achieved include:

- Opportunities to improve consistency in reporting of whole of fund secondary contribution rates
- Academy conversions

These differences contribute, alongside genuine local variations, to differences between funding levels and recommended contribution rates on local bases which a reader may find it difficult to interpret without undertaking further analysis.

6 Solvency

Key solvency findings

- Funding levels have improved on local bases since 2016, primarily due to asset outperformance. This asset performance means that on average the funds of the LGPS are nearly 100% funded on their local funding bases.
- Growth of funds' assets and liabilities has been faster than growth in the size of the underlying local authorities (as measured by Core Spending Power and Financing data). This means that those funds that are in deficit are more likely to trigger our asset shock measure. Where this is the only concern raised we have considered this a white flag and we have focused on the greater risk that is implied by this across a range of funds in the LGPS, rather than engaging with specific funds affected.
- No other solvency flags have been raised due to the improvements in funding position.
- There is a general risk that funds are growing relative to the size of the local authority employers, so this volatility can have a more profound effect.

Under section 13(4)(c) of the Act, the Government Actuary must report on whether the rate of employer contributions to the pension fund is set at an appropriate level to ensure the solvency of the pension fund.

In this Chapter:

- We provide a definition of solvency
- We provide some background on solvency issues, and some of the measures and flags we have used in considering them

Definition of solvency

In line with the definition in CIPFA's Funding Strategy Statement Guidance, which we adopt for the purposes of section 13, we consider that the rate of employer contributions has been set at an appropriate level, to ensure the solvency of the pension fund, if

- **the rate of employer contributions is set to target a funding level for the whole fund (assets divided by liabilities) of 100% over an appropriate time period and using appropriate actuarial assumptions**

  and either:

- **employers collectively have the financial capacity to increase employer contributions, and/or the fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%**

  or

- **there is an appropriate plan in place should there be, or there is expected in future to be, no or a limited number of fund employers and/or a material reduction in the capacity of fund employers to increase contributions as might be needed**

Summary of solvency Outcomes

6.1 Following the 2019 valuations 62 funds (71%) were in surplus on our best estimate basis, with the aggregate best estimate funding level being 109%. This compares to the position in 2016, where around 60 funds were in surplus with an aggregate funding level of 106%. GAD's best estimate basis is the set of assumptions derived by GAD without allowance for prudence, hence with a 50:50 likelihood of the actual experience being higher or lower than the assumption being adopted, in our opinion. Where the funding level on such a basis is higher than 100% we expect there is a greater than 50% likelihood that existing assets would be sufficient to cover benefits in respect of accrued service when they fall due.

6.2 There is a range of funding levels on this basis from 76% to 145% (excluding the Environment Agency Closed fund, as benefits payable and costs of the fund are met by Grant-in-Aid funding by DEFRA). The solvency definition above means those funds that are relatively poorly funded are not considered insolvent, but they do need to be taking adequate action to resolve that deficit (which is the subject of long term cost efficiency).

6.3 Although funding levels have improved across the board, GAD's view is that the outlook for prevailing economic conditions has deteriorated as at 2019 compared to 2016. Many funds have reduced their contribution rates as a result of the improvement of their funding position. In our opinion, for some funds, the deterioration in outlook may have warranted a strengthening of valuation bases, resulting in a requirement to maintain or increase contributions.

6.4 The period from 2016-19 saw strong equity returns of around 10-12% per annum, leading to high Price/Earnings ratios. Hence GAD's view is that markets were highly valued at 31 March 2019, and so we might expect to see lower future returns. A fall in gilt and bond yields over a similar period supports GAD's view of downward pressure on expected returns.

6.5 Based on Scheme funding analysis annexure produced by TPR the real discount rates of private pension schemes valued between September 2018 and September 2019 (i.e. including 31 March 2019) were around 1% lower than those used between September 2015 and September 2016 (i.e. including 31 March 2016). This coincides with a decrease in the return seeking assets held by schemes. TPR reporting indicates this is at least partly explained by the ongoing shift towards a lower proportion of return seeking assets in those schemes between 2016 and 2019. Whilst a reduction in the real discount rate was observed between 2016 and 2019 in the LGPS this was significantly smaller on average. The proportion of return seeking assets held by LGPS funds has not changed significantly over this period. Our Funding Analysis report contains further information.

SAB Funding Level

6.6 Five funds have a "white" flag in relation to their SAB funding level as these are the poorest funded on the SAB basis, with the distance from the mean SAB funding shown below:

Fund	SAB Funding Level Distance below mean
Bedfordshire Pension Fund (Barnett Waddingham)	**19%**
London Borough of Waltham Forest Pension Fund (Mercer)	**21%**
London Borough of Havering Pension Fund (Hymans Robertson)	**22%**
London Borough of Brent Pension Fund (Hymans Robertson)	**27%**
Royal County of Berkshire Pension Fund (Barnett Waddingham)	**31%**

6.7 We note that this is a purely relative measure and we did not engage with those funds that flag on this measure only. We would consider this a "white" flag. However, we encourage funds to review their long term budgeting process to allow appropriately for additional expected contributions to eliminate the deficit and to help to demonstrate solvency.

Asset Shock

6.8 This is a stress test. It considers what may happen if there is a sustained reduction in the value of return seeking assets of tax raising employers (those employers whose income is covered by core spending and financing data). For example, a market correction in which asset values do not immediately recover and losses are not absorbed by changes in assumptions.

6.9 We model the additional contributions that would be required by tax raising employers to meet the emerging deficit. This is different to considering the total contributions required following the shock – i.e. we are looking at where there is a risk of large changes to the contribution rate, rather than a risk of the total contribution rate exceeding some threshold.

6.10 Funds with a high level of return seeking assets are more exposed to asset shocks and more likely to trigger this flag.

6.11 More funds flag on the asset shock measure in 2019 than in 2016.

6.12 Funds have grown considerably, measured by the value of either their assets or liabilities, over the three years to 31 March 2019. The size of the employers, and particularly that of the relevant local authorities, as measured by their core spending power and financing data, has not grown at anything like the same pace. (Core spending power and financing data is used as a measure of the financial resource of the underlying tax raising employers, as detailed in Appendix C).

6.13 We have considered this situation carefully and concluded that it would be difficult for funds to take specific action in response to individual fund flags which have been primarily driven by the increase in the size of funds relative to the possible contributions available. Therefore we are noting these concerns as a "white" for information only flag in Appendix C. This is an advisory flag that highlights a general concern but one which may require monitoring rather than action.

6.14 A key message is that this reflects the increased risk to the whole of the LGPS. If a shock were to occur, that shock would be more significant than before, since the fund has grown relative to the size of the local authority. Therefore, the ability of the employer to meet the increased contributions that could result will be diminished.

6.15 We have included a list of the funds with a white flag in Appendix C.

6.16 The potential for future variation in contribution rate is discussed further in our Asset Liability Modelling (ALM) section below. The ALM primarily focuses on potential variability of future employer contribution rates. We encourage actuarial advisors to provide commentary in relation to this risk in their valuation reports, both in general, and in relation to emerging risks such as climate change.

Asset Liability Modelling (ALM)

Introduction

6.17 An Asset Liability Model ('ALM') allows us to simultaneously project the assets and liabilities of the scheme under a range of simulations to investigate possible outcomes for key variables and metrics. Modelling the scheme in this way allows us to understand not only central, expected outcomes but also the wider range of possible outcomes and associated probabilities. It also demonstrates the importance of considering the assets and liabilities together to understand how particular risks and relationships might manifest in simultaneous movements in both sides of the balance sheet.

6.18 The ALM exercise was undertaken to illustrate:

> Uncertainty of future employer contributions

> Impact on scheme funding levels if there are constraints on employers' and local authorities' pension contributions

> Scheme risks and possible risk management

6.19 The contribution and funding analyses in the ALM section are for illustrative purposes and are based on a set of assumptions and methodology set by GAD. It should be noted that this type of analysis is particularly dependent on the assumptions and methodology adopted. Other models could produce different outcomes.

6.20 The ALM charts in this report include an allowance for the reduction in the asset value following the onset of the COVID-19 pandemic in the 2019/20 scheme year but no allowance has been made for the rebound of assets that is expected to have occurred in the LGPS for 2020/21. GAD currently hold no information on the extent of recovery by funds, however we have included charts in Appendix E which illustrate the impact of setting the funding level to 100% at 2021 for all scenarios.

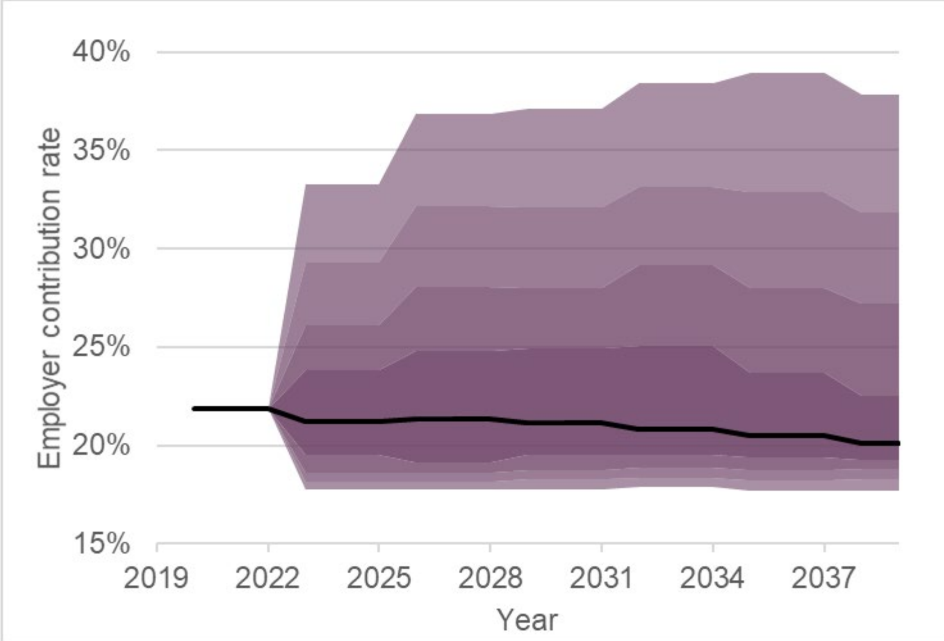
6.21 The methodology used for the ALM is set out in Appendix E.

Volatility of contributions

6.22 Variability of asset returns and changes in economic outlook may place significant pressures on the future rate of employer contributions.

6.23 Chart 6.1 Illustrates the range of total employer contributions (primary and secondary rates) projected over future valuations. This output is driven by the assumption that the impact of changes in asset values and/or the economic outlook will feed through directly to contribution setting.

Chart 6.1 – Illustrations of total employer contributions



6.24 In chart 6.1, the thick black line represents the median of the range of contribution rates simulated at each future valuation. Each shade of purple represents the range of funding levels for a decile (10%) of scenarios, with the subsequent lighter shade representing the next decile. We have not shown the most extreme deciles (0-10% and 90-100%)

6.25 Chart 6.1 illustrates that LGPS employers could be subject to significant pressures as there is around a 25% likelihood that the employer contributions could exceed 30% from 2031.

6.26 In our modelling, there is limited likelihood of significant reduction in contributions due to our assumptions that no reduction is applied when the LGPS is in surplus.

6.27 In practice these pressures may not follow through directly into changes in employer contribution rates. For example, if there was a downward (or upward) cost pressure then the following adjustments might be considered:

> the asset strategy might be considered and refined (for example switching to something more defensive or return seeking) which would be expected to alter the future volatility and expected future return

> the length of the recovery period might be considered and adjusted

> the level of prudence might be considered and adjusted, which could alter the chance that future experience was better/worse than assumed

However, such short-term adjustments may not be indefinitely repeatable in practice.

6.28 The output of our model should not therefore be regarded as a prediction of changes in future employer contribution rates, but rather an illustration of the potential pressures on the employer contribution rate that might need to be managed in some way. Any changes to manage down employer contribution rates in the short term do not alter the long term cost of the scheme (which depends on the level of scheme benefits and scheme experience, including asset returns) and more generally might have some other less desirable outcomes, for example:

> increasing the length of recovery periods transfers costs onto future generations of taxpayers

> choosing a more return seeking asset strategy would be expected to increase volatility and risk

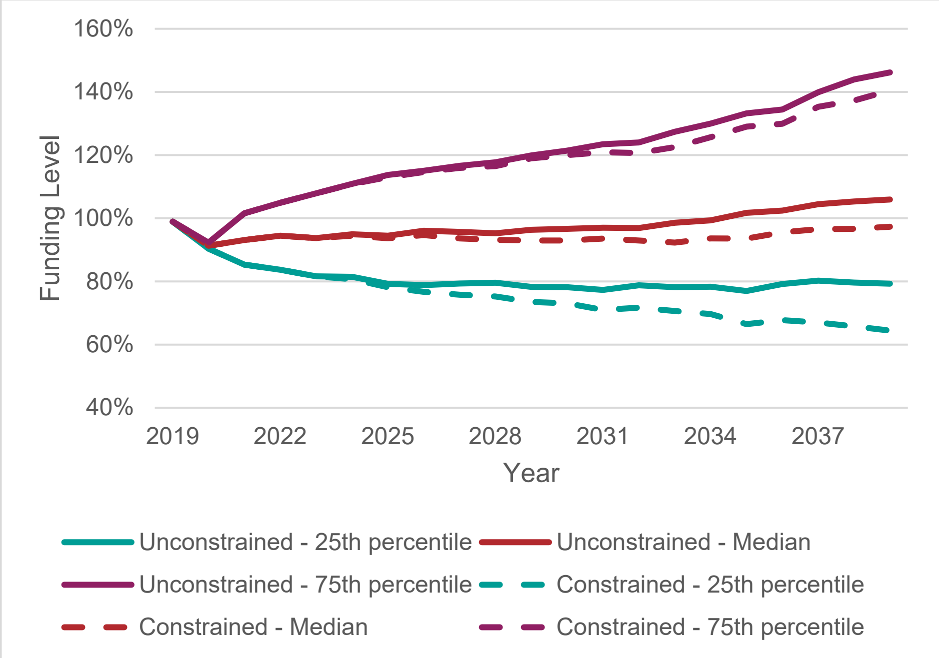
Funding of benefits at future valuations

6.29 The level of future funding available to local authorities is unknown. However if recent trends were to continue, there may be some constraints on the funding available to local authorities.

6.30 The funding strategies set by LGPS funds often seek to maintain stability of contributions, and the LGPS regulations require the actuary to have regard to the desirability of maintaining as nearly a constant primary rate of employer contributions as possible. The range of employer contribution rates that emerge at future valuations may be narrower than shown in chart 6.1 above because of this stability. Stability helps to avoid frequent upward and downward changes in employer contribution as a result of short-term volatility. However, there is significant variability in long term asset returns and adverse experience at a valuation might not be a short term 'blip', but the start of a long-term trend. If employer contributions do not change to reflect adverse experience in these circumstances, then there is a risk that funding levels fall in the medium-long term.

6.31 The two points raised above illustrate scenarios where employer contributions may be constrained and chart 6.2 illustrates the consequential impact that constraints on contributions could have on the projected funding levels.

Chart 6.2 – Illustration of the impact constrained contributions could have on funding levels



6.32 Chart 6.2 shows the median value (red) and the upper (purple, 75th) and lower (green, 25th) quartiles for the projected funding level. The thick lines represent unconstrained contributions and the broken lines are where employer contributions are constrained. Note that none of the lines shown on this chart represent any simulated scenario – instead they are intended to represent the distribution of possible outcomes and how the range of simulated scenarios changes over the projection period.

6.33 The constraint being applied is that average employer contribution rates do not exceed 22% of pensionable pay at any time (this is based on the average 2019 valuation contribution rate).

6.34 Chart 6.2 illustrates the downside risk that the LGPS may be subject to. There is just over a 25% chance of the funding level being below 65% by the end of the projection period, whereas for the unconstrained scenario there is a 25% likelihood of the funding level being below 80%.

6.35 This analysis is an illustration of how constraints on contribution rate may affect the LGPS, with similar points flagged in the discussion on asset shock – see paragraphs 6.8 – 6.16 and risk comment below.

Scheme risk

6.36 The ALM study is based on a projection of the fund in aggregate. In practice, the 88 funds each have their own individual circumstances and are starting from unique positions which alters the risk. To demonstrate this at a high level, we have considered sensitivity analysis which varies the initial funding level at the 2019 valuation as follows:

(a) Funding level is set to 75%, which is around the lowest funding level of the funds on GAD's best estimate basis at 2019

(b) Funding level is set to 100% at 2019

(c) Funding level is set to 145%, which is the highest funding level of the LGPS funds on GAD's best estimate basis at 2019

6.37 For these scenarios we have not allowed for a rebound of asset values in 2020/21 and have assumed contributions are constrained.

6.38 The table below illustrates the likelihood of achieving certain funding levels at 2037:

Table 6.1 – Illustrations of funding sensitivities

Scenario	Likelihood of being at most 75% funded at 2037	Likelihood of being at least 100% funded at 2037	Likelihood of being at least 145% funded at 2037
75% at 2019 valuation	50%	25%	10%
100% at 2019 valuation	30%	50%	20%
145% at 2019 valuation	10%	75%	50%

6.39 Table 6.1 illustrates the potential risks to well-funded funds, as continued well-funded status is not guaranteed. So even funds that are well-funded need to consider how best to manage downside risks.

6.40 Conversely a relatively poorly funded fund could recover, through a combination of employer contributions and strong investment returns.

General risk comment

Local authorities have finite resources and in recent years the size of pension funds has increased considerably more than their budgets. Given that pension funding levels change it is not unlikely that a period of increased pension contributions will be required in the future.

If additional spending is required for pension contributions this may lead to a strain on local authority budgets.

We would expect that administering authorities are aware of this risk in relation to solvency and would monitor this over time. Administering authorities may wish to discuss the potential volatility of future contributions with employers in relation to overall affordability.

Management of Risks

6.41 The ALM section above highlights some of the key risks that the LGPS may be exposed to over future valuations. It illustrates some of the risks which funds should consider when making investment decisions:

- Investment risk, primarily equity returns
- Volatility of contributions

6.42 GAD does not comment on the investment strategy that LGPS funds should adopt or the types of investments which the LGPS funds should invest in. Nevertheless, when choosing an investment strategy we would expect funds to consider the ongoing cost of the benefits and their capacity to increase contributions if required.

7 Long term cost efficiency

Key long term cost efficiency findings

- **In 2019 we are flagging four funds in relation to long term cost efficiency. This is two fewer than in 2016**
- **For two funds we are concerned that employer contributions are too low, as indicated by flags on a combination of GAD's deficit period, required return and return scope measures**
- **For a further two funds we are concerned that employer contribution rates are decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery is being extended further into the future (increasing the burden on future taxpayers)**
- **We recommend all funds review their funding strategy statements to ensure handling of surplus/deficit is fair to both current and future taxpayers**
- **We are pleased to report an improvement in funds maintaining their deficit recovery plans; however, we are concerned about the lack of transparency of some funds around their deficit recovery period**

> **Some funds have entered into long term arrangements with their sponsoring councils to receive future assets in return for reducing deficit contributions that would otherwise be expected to be paid into the fund. These can be complex arrangements. Careful consideration is required to ensure they fully comply with all regulations and are consistent with long term cost efficiency. We suggest that the SAB examine such arrangements to check appropriate governance is in place to ensure long term cost efficiency**

Under section 13(4)(c) of the Act, the Government Actuary must report on whether the rate of employer contributions to the pension fund is set at an appropriate level to ensure the long term cost efficiency of the scheme, so far as relating to the pension fund.

In this Chapter:

- **We provide a definition of long term cost efficiency**
- **We provide some background on long term cost efficiency issues, and the measures and flags we have used in considering them**
- **We set out flagged long term cost efficiency issues: deficit reconciliation and deficit recovery period**
- **We set out specific concerns and recommendations in respect of two types of asset transfer arrangements**

Definition of long term cost efficiency

In line with the definition in CIPFA's Funding Strategy Statement Guidance, which we adopt for the purposes of section 13, we consider that the rate of employer contributions has been set at an appropriate level to ensure long term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

Summary of long term cost efficiency outcomes

7.1 Long term cost efficiency (LTCE) relates to not deferring payments too far into the future so that they affect future generations of taxpayers disproportionately.

7.2 In total, four funds are flagged under LTCE in the 2019 review. This compares with six funds flagged in 2016.

7.3 For two funds we are concerned that employer contributions are too low, as indicated by flags on a combination of GAD's deficit period, required return and return scope measures. Where the deficit period is the implied deficit recovery period and the required return considers the investment return rates required to achieve full funding in 20 years' time (both calculated on GAD's best estimate basis). Return scope considers how the required investment return compares to the fund's expected best estimate future return assuming the current asset split (these are defined in Appendix D in more detail). In Table 7.1 below we set out these measures for:

> Royal County of Berkshire Pension Fund

> City of London Corporation Pension Fund

Table 7.1 – Funds with amber flag on deficit period, required return and return scope measures with rankings out of 87 funds (excluding the Environment Agency closed fund)

Pension fund	Deficit period (rank)	Required return (rank)	Return scope (rank)
City of London Corporation Pension Fund	15 years (86)	4.1% (84)	0.3% (76)
Royal County of Berkshire Pension Fund	25 years (87)	4.6% (87)	0.1% (84)

7.4 For a further two funds, Redbridge Pension Fund and Barking and Dagenham Pension Fund, we are concerned that employer contribution rates are decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery end point is being extended further into the future (increasing the burden on future taxpayers). This led to these two funds raising a flag in relation to their deficit recovery period.

7.5 We also engaged with Islington Council Pension Fund and Devon County Council Pension Fund. Prior to engagement, these funds raised initial amber flags and we were concerned that employer contributions were set too low. We were able to remove the amber flags following our engagement and their commitments to make additional contributions prior to 2023.

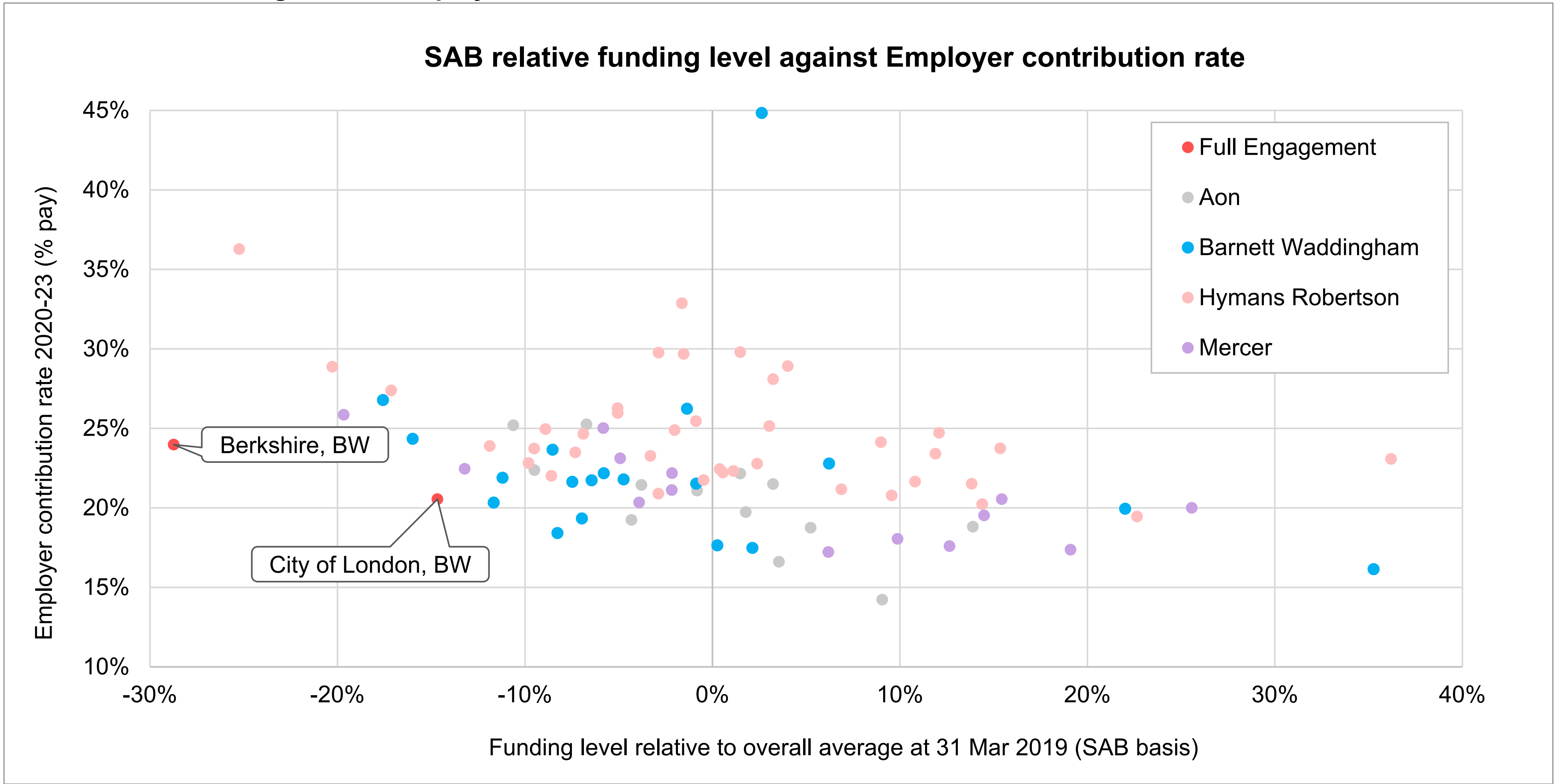
7.6 We engaged with a number of funds for which we did not raise a combination of flags. This was as a courtesy to explain that they were close to being flagged and may want to take action as part of the 2022 valuation to reduce the likelihood of being flagged then. These funds are listed in Appendix D as "light engagements".

7.7 Some funds also raised flags against some LTCE measures, but on closer review most were not considered to be sufficiently wide outliers to warrant further investigation or engagement.

7.8 Chart 7.1 plots the funding level relative to the average (normalised to the SAB basis) against employer total contributions (expressed as a percentage of pensionable earnings). Those funds on the bottom left of the chart are therefore those receiving lower total employer contributions compared to other funds and which are relatively weakly funded on a standardised basis. The two funds discussed in 7.3 above appear furthest to the lower left and also flag on a number of relative LTCE measures. This combination of flags led us to raise further concerns and engage with those funds.

Deficit Period, Required Return and Return Scope

Chart 7.1 SAB funding level vs Employer contribution rate



Royal County of Berkshire Pension Fund

7.9 The Royal County of Berkshire Pension Fund is one of the least well funded on the local basis, with a funding level of 78%. It is the worst funded on the common SAB basis (excluding Environment Agency Closed fund). The funding level is higher, and therefore less prudent, than GAD's best estimate basis.

7.10 Proposed total contributions are 24.0% of pensionable pay (increased from 21.2% in 2016). This is partly an increase in primary rates (up 0.9% to 15.4%). However, under a worse economic outlook and relative to contributions being paid into other funds, we consider this to be lower than necessary to ensure long term cost efficiency.

7.11 The Royal County of Berkshire Pension Fund raised an amber flag in relation to some long term cost efficiency measures: deficit recovery period (25 years on GAD's best estimate basis), required return (where it ranks lowest at 87 of 87) and return scope.

7.12 Chart 7.1 shows that the Royal County of Berkshire Pension Fund is ranked lowest on funding level, and its contribution levels are not correspondingly high. Around 25 funds are receiving greater contributions.

7.13 The Royal County of Berkshire Pension Fund has retained its deficit recovery end point, although this was relatively long at 2040 in 2016.

7.14 Following engagement with the Royal County of Berkshire Pension Fund, we were advised that employers participating in The Royal County of Berkshire Pension Fund have been for the last few years increasing their contributions by 1% per year to reduce the deficit over the longer term. We were reassured by this long-term commitment.

7.15 The officers we engaged with appreciated that additional funding would be required over a long timeframe and reaffirmed their commitment to do so. They noted that there were strong constraints on affordability at this point in time.

7.16 They have also reviewed their governance processes, with recommendations currently being implemented and additional permanent staff being recruited to facilitate this.

7.17 They advised that in particular they are engaging with the Local Pension Partnership investment pool to tailor their strategic asset allocation specifically to the circumstances of the Royal County of Berkshire Pension Fund.

City of London Corporation Pension Fund

7.18 The City of London Corporation Pension Fund is funded at 90% on the local basis and just over 90% on SAB and best estimate bases. Overall the total employer contributions being paid into the fund have decreased since 2016 to 20.5% (down 0.2%; the primary rate has increased by 2.2% to 15.0% but secondary rates have fallen by 2.4% to 5.5%). We note that this is a feature of the mix of employers and that individual total employer's contributions have not generally decreased.

7.19 The City of London Corporation Pension Fund has retained its deficit recovery end point, at 2033. This has been the target since the 2013 valuation.

7.20 The City of London Corporation Pension Fund raises amber flags in relation to recovery period (15 years on GAD's best estimate basis) and return scope. It ranks 84 of 87 on required return (also an amber flag).

7.21 Chart 7.1 shows that the City of London Corporation Pension Fund ranks 8th lowest on funding level but this is not reflected in its contribution level. Around 61 funds are receiving greater contributions.

7.22 Following engagement with the City of London Corporation Pension Fund we were advised that employers have been adhering to their plan to remove the deficit by 2033. We were reassured by this long-term commitment.

7.23 The officers we engaged with referred to some reassignment of priorities and impacts on their funding as a result of COVID-19 but stressed that overall finances are robust and adequate to maintain this strategy.

Engagement with funds where flags subsequently removed

7.24 Islington Council Pension Fund is funded at 85% on the local basis and just over 90% on SAB and best estimate bases. On average across the three years, overall contributions have remained unchanged since 2016 at 20.0% of pensionable pay (primary rate has increased by 2.2% to 16.9% but average secondary rates have fallen by 2.2%, from 5.3% to 3.1%).

7.25 Islington Council Pension Fund has retained its deficit recovery end point, at 2038.

7.26 Prior to engagement, Islington Council Pension Fund would have raised an amber flag on deficit recovery period (17 years on GAD's best estimate basis) and return scope. It would have ranked 86 of 87 on required return (also an amber flag).

7.27 We engaged with relevant officers of Islington Council Pension Fund. They confirmed that they were committed to improving the funding level and there was already an agreement in place to a phased increase in contributions after the 2022 and 2025 valuations. Further there had been initial discussions on whether secondary contributions could be paid earlier. Following the engagement with GAD, Islington Council provided a firm commitment to paying in an additional contribution to the fund prior to 2023. If secondary contributions after 2023 are maintained this is sufficient to remove all amber flags for Islington Council Pension Fund.

7.28 We are pleased to confirm therefore that no amber flags apply to Islington Council Pension Fund in this report.

7.29 Devon County Council Pension Fund is funded at between 90% and 95% on local, SAB and best estimate bases. Overall contributions have decreased since 2016 to 20.3% of pensionable pay (down 0.6%). The primary rate has increased by 2.1% to 16.9% but secondary rates have fallen by 3.1% to 3.4%.

7.30 Devon County Council Pension Fund has retained its deficit recovery end point, although this was relatively long at 2040.

7.31 Based on the data provided, and prior to our engagement Devon County Council Pension Fund raised amber flags on deficit recovery period (19 years on GAD's best estimate basis) and return scope. It ranked 87 of 87 on required return (also an amber flag).

7.32 Following engagement with Devon County Council Pension Fund we established that an asset transfer had been made in October 2019. This increased in total fund assets by £72 million. As a post-valuation event this had not been considered in our initial calculations and was not reflected in the data received.

7.33 In our engagement meetings we agreed that it is appropriate to allow for this one-off increase in asset value and this was sufficient to remove the amber flags on deficit recovery period and return scope.

Deficit Reconciliation

7.34 Where a fund is in deficit administering authorities should avoid continually extending the deficit recovery period end point at each and subsequent actuarial valuations as this will not meet the LTCE requirements. Over time and given stable and better than expected market conditions, administering authorities should aim to, where possible and appropriate:

> Maintain the levels of contributions and/or

> Reduce deficit recovery periods by maintaining the end point of the recovery period

7.35 We believe it is appropriate for funds to consider their plans for the duration of the deficit recovery period, so that future contributions are recognised and these form part of employers' budgeting process.

7.36 We would not normally expect to see employer contribution rates decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery end point is being extended further into the future (increasing the burden on future taxpayers). This expectation considers the desire for intergenerational fairness which is required for LTCE.

7.37 We appreciate there may be limited circumstances where new deficit may emerge between valuations, as a result of the fund's experience, where it may be appropriate to extend the recovery period. For example, if a fund within the last three years of its deficit recovery period experienced a material reduction in its funding level, it may not be appropriate in the context of fairness between current and future generations of taxpayers to repay that new deficit within three years.

7.38 We consider that reconciliation of the deficit recovery plan is an essential component for all funds to demonstrate they meet LTCE requirements.

7.39 We note that most funds have now maintained their deficit recovery end points in accordance with our recommendation 5 from our 2016 section 13 report.

7.40 Hymans Robertson use stochastic techniques leading to a probability of success ("meeting the funding target by the funding time horizon") over a projection period (such as, for example, twenty years) to help set their contribution rates. This makes reconciliation as outlined in 7.38 difficult. It would be helpful if Hymans Robertson could also illustrate what the deficit recovery period would be based on for the proposed contribution pattern.

7.41 To ensure that we can compare future recovery plans; we propose that the following additional information is added to the dashboard for each fund (see Appendix B).

> Three year average of total expected employer contributions, expressed as a percentage of pensionable pay

And, for funds in deficit only where deficit recovery period is defined:

- Deficit end point at current valuation and prior valuation (weighted average for all employers in deficit)

Where a deficit recovery period is not defined:

- success probability at the end point of the prior funding time horizon (current and prior valuation)

7.42 Where funds are in surplus, we are comfortable that there is more flexibility on whether to extend the end point over which surpluses are spread.

7.43 We engaged with two funds that were flagged on this measure:

- Redbridge Pension Fund, which reduced contributions, had a success probability (i.e. the probability of being fully funded on the local valuation basis) at 2033 of 55%, compared with 64% in the 2016 projection. Redbridge Pension Fund therefore raises a flag for deficit reconciliation

- Barking and Dagenham Pension Fund had a 67% probability of success at 2033. However, because it has moved to a different advisor, Hymans Robertson were not able to provide the success probability at the previous valuation or any other information for us to assess whether this meets LTCE requirements. Barking and Dagenham Pension Fund therefore raises a flag for deficit reconciliation

7.44 We note that both funds use a 17 rather than 20 year projection period, which itself is shorter (hence more prudent) than that used for a number of other funds.

Recommendation 2:
We recommend the Scheme Advisory Board considers 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.

Recommendation 3:
We recommend fund actuaries provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard.

Asset transfer arrangements

7.45 A number of councils have or may be considering an asset "gift" to their pension funds. We are aware of two general types of arrangement as follows:

> "Asset transfers" where council assets are transferred to an investment company, with the cash subsequently used to pay down part or all of the council's pension fund deficit

> "Contingent property transfer" where councils establish a special purpose vehicle in which a portfolio of social housing owned by the council is managed often for a long period of time (eg 40 years). The assets are not immediately transferred to the pension fund but at the end of the agreed management period, the property portfolio is gifted to the pension fund, on the expectation that the underlying properties will generate revenues and/or sales proceeds that will reduce or eliminate any deficit that remains in the pension fund at that time. In return, the council providing the gift receives an immediate reduction in deficit contributions, calculated as a present value of the expected future revenue from the portfolio of properties

7.46 Whilst we are not commenting on the actions of any fund that holds such an asset, potential concerns with these two types of arrangements could include:

> Funds need to carefully consider compliance aspects of such arrangements, including:

  - Compliance with local authority capital requirements, which specify that pension contributions should be met via revenue rather than capital accounts. At the point the gift is realised, this could be considered a capital asset transfer arrangement

  - Compliance with restrictions on employer related investments in the Occupational Pension Schemes (Investment) Regulations 2005 (as amended)

> The assets may not be the form of asset which best meets a pension fund's long term objectives and hence we have concerns whether they will ultimately meet the LTCE objective

> Due to complexity such asset transfer arrangements are likely to be associated with high set-up and management costs

> They are potentially high risk asset classes which the pension fund will need to monitor - again increasing costs

> As a minimum, we would expect the pension fund to need specific advice on the suitability of these assets

> The governance around future pension funds' decisions to accept such transfers should be carefully considered

7.47 The list above may not be exhaustive but is included to ensure that any council or fund considering entering into such an arrangement has considered relevant factors. We do not imply that funds that have already entered such an arrangement have not considered these aspects.

7.48 The asset transfer arrangements considered in this section do include those associated with bulk transfers of members between funds.

Recommendation 4:
We recommend the Scheme Advisory Board review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around any such transfers to ensure long term cost efficiency.

Government
Actuary's
Department

Local Government Pension Scheme England and Wales

Section 13 Report as at 31 March 2019

Appendices

October 2021

Contents

At GAD, we seek to achieve a high standard in all our work. We are accredited under the Institute and Faculty of Actuaries' Quality Assurance Scheme. Our website describes **the standards** we apply.

Appendix A: Compliance

A.1 In this appendix we set out checks we conducted to determine whether the actuarial valuations of the 88 Local Government Pension Scheme (LGPS) funds have been completed in accordance with the scheme regulations.

Statement of Compliance

A.2 The Government Actuary's Department (GAD) selected one fund as a representative example from each of the firms of actuarial advisors. The following statements of compliance were contained within the chosen reports by each firm:

Table A1: Statement of Compliance

Fund	Statement of compliance
London Borough of Enfield Pension Fund (Aon)	This report was commissioned by and is produced solely for the use of the Administering Authority. It is produced in compliance with: Regulation 62 of the Local Government Pension Scheme Regulations 2013.
London Borough of Sutton Pension Fund (Barnett Waddingham)	The purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2020 to 31 March 2023 as required under Regulation 62 of the Regulations.
Derbyshire Pension Fund (Hymans Robertson)	We have been commissioned by Derbyshire County Council ("the Administering Authority") to carry out an actuarial valuation of the Derbyshire Pension Fund ("the Fund") as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 ("the Regulations")
Lancashire County Pension Fund (Mercer)	This report is addressed to the Administering Authority of the Lancashire County Pension Fund ("the Administering Authority") and is provided to meet the requirements of Regulation 62 of the Local Government Pension Scheme Regulations 2013 (as amended) ("the Regulations").

Compliance with valuation regulations

Actuarial Valuation Reports Regulation 62 (1 - 2)

A.3 Regulation 62 (1) requires the administering authority to obtain an actuarial valuation report on the assets and liabilities of each of its pension funds, including a rates and adjustments certificate, as at 31st March 2016 and on 31st March in every subsequent valuation year (i.e. 31st March 2019). Regulation 62 (2) requires that the above documents be obtained by the first anniversary of the date at which the valuation is made, namely, 31 March 2020 in the case of the 2019 valuation.

Publication

A.4 Each chosen fund was published in accordance with regulations. The following table sets out dates of publication of the actuarial report.

Table A2: Publication date

Fund	Date of publication
London Borough of Enfield Pension Fund (Aon)	31 March 2020
London Borough of Sutton Pension Fund (Barnett Waddingham)	31 March 2020
Derbyshire Pension Fund (Hymans Robertson)	31 March 2020
Lancashire County Pension Fund (Mercer)	31 March 2020

Demographic Assumptions

A.5 Regulation 62 (3) states that the actuarial valuation report must contain a statement of the demographic assumptions that have been used in making the valuation, and must show how these assumptions reflect the experience that has actually occurred during the period since the last valuation. Each valuation report contains a section on demographic assumptions including all the assumptions that we would expect in an actuarial valuation report.

Table A3: Demographic Assumptions

Demographic	London Borough of Enfield Pension Fund (Aon)	London Borough of Sutton Pension Fund (Barnett Waddingham)	Derbyshire Pension Fund (Hymans Robertson)	Lancashire County Pension Fund (Mercer)
Pre-retirement mortality	✔	✔	✔	✔
Post-retirement mortality	✔	✔	✔	✔
Dependant mortality	✔	✔	✔	✔
Ill health retirement	✔	✔	✔	✔
Normal health retirements	✔	✔	✔	✔
Withdrawals	✔	✔	✔	✔
Promotional salary scale	✔	N/A	✔	N/A
Family details (partners and dependants)	✔	✔	✔	✔
50:50 option take-up	✔	✔	✔	✔
Commutation	✔	✔	✔	✔

Barnett Waddingham and Mercer did not make a separate promotional salary scale assumption and therefore effectively this was combined in their general pay increase assumption.

Local Experience

A.6 The regulation requires that the reports "must *show how* the assumptions relate to the events which have actually occurred in relation to members of the Scheme since the last valuation." in respect of the demographic assumptions. For the four chosen funds:

> All have shown differences between expectations and experiences for the inter-valuation period

We note that additional information on demographic experience and assumption setting may be contained in supporting (non-public) reports/advice.

Contribution Rates

A.7 Regulation 62 sets out that employer contributions are separated into two components:

- Primary rates which meet the cost of ongoing accrual for current active members; and
- Secondary rates, which are mainly established to repay deficit or eliminate surplus over a given period (the deficit/surplus recovery period).

A.8 Regulation 62 (6) states that when setting the contribution rates the actuary must have regard to:

- the existing and prospective liabilities arising from circumstances common to all those bodies

- the *desirability* of maintaining as nearly constant a common rate as possible
- the current version of the administering authority's funding strategy mentioned in regulation 58 (funding strategy statements), and
- the *requirement* to secure the solvency of the pension fund and the long-term cost efficiency of the Scheme, so far as relating to the pension fund.

A.9 Regulation 62 (4) states that the rates and adjustments certificate must specify both the primary rate of the employer's contribution and the secondary rate of the employer's contribution, for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.

A.10 Each valuation report must set out primary and secondary employer contribution rates.

Primary Rates

A.11 Regulation 62 (5) defines the primary rate of an employer's contribution as "the amount in respect of the cost of future accruals which, in the actuary's opinion, should be paid to a fund by all bodies whose employees contribute to it so as to secure its solvency", and specifies that this must be expressed as a percentage of the pay of their employees who are active members.

A.12 The following table shows the primary rate of employer contribution for the administering authorities whole fund:

Table A4: Primary contribution rate

Fund	Primary contribution rate
London Borough of Enfield Pension Fund (Aon)	18.5%
London Borough of Sutton Pension Fund (Barnett Waddingham)	19.2%
Derbyshire Pension Fund (Hymans Robertson)	18.5%
Lancashire County Pension Fund (Mercer)	17.4%

A.13 Each primary rate of employer contribution has been calculated to cover the cost of future benefits accrued by their employees. Each valuation also provides a breakdown of the primary rate for each employer. Each valuation provides a secondary rate for each employer (expressed as a cash amount and/or percentage of pay for each employer).

Secondary Rates

A.14 Regulation 62 (7) states that the secondary contribution rate may be expressed as either a percentage or a monetary amount. Each valuation provides a secondary rate for each employer (expressed as a cash amount and/or percentage of pay for each employer). The secondary rates of employer contributions for each valuation have been defined to be adjustments to the primary rate as required. In all cases, the secondary rates have been provided for the next three years for each employer.

Table A5: Whole fund Secondary Contribution Rates

Fund	2020/21	2021/22	2022/23
London Borough of Enfield Pension Fund (Aon)	£2,099,000 or 1.3% of pensionable pay plus £8,100	£2,175,000 or 1.3% of pensionable pay plus £8,400	£2,253,000 or 1.3% of pensionable pay plus £8,700
London Borough of Sutton Pension Fund (Barnett Waddingham)	4.5% of pensionable pay or £4,879,000	4.5% of pensionable pay or £5,058,000	4.5% of pensionable pay or £5,242,000
Derbyshire Pension Fund (Hymans Robertson)	£17,432,000	£17,752,000	£18,079,000
Lancashire County Pension Fund (Mercer)	£3,200,000 or £9,300,000 less 0.6% of pensionable pay	£3,300,000 or £9,700,000 less 0.6% of pensionable pay	£3,400,000 or £10,000,000 less 0.6% of pensionable pay

Rates and Adjustments Certificate (Regulation 62 (8))

A.15 Regulation 62 (8) states that the rates and adjustments certificate must contain a statement of the assumptions on which the certificate is given as respects:

(a) the number of members who will become entitled to payment of pensions under the provisions of the Scheme; and

(b) the amount of the liabilities arising in respect of such members

during the period covered by the certificate.

A.16 In the following table we set out where the assumptions for each valuation can be found.

A.17 Of the four chosen funds only two had Rates and Adjustments Certificate containing a clear statement detailing the assumptions on which the certificate has been given and where to find them in our opinion. We recommend that advisers consider further at subsequent valuations. However, we do not consider this to be material non-compliance.

Table A6: Location of assumptions

Fund	Statement in rates and adjustments certificate	Location of assumptions in valuation report
London Borough of Enfield Pension Fund (Aon)	Not transparent to GAD initially (but updated once highlighted)	Further information e
London Borough of Sutton Pension Fund (Barnett Waddingham)	✔	Appendix 2
Derbyshire Pension Fund (Hymans Robertson)	✔	Appendix 2
Lancashire County Pension Fund (Mercer)	Not transparent to GAD	Appendix A

Regulation 62 (9)

A.18 Regulation 62 (9) States that the administering authority must provide the actuary preparing a valuation or a rates and adjustments certificate with the consolidated revenue account of the fund and such other information as the actuary requests.

A.19 For each of the four valuation reports examined we have seen evidence of having received relevant data from the administering authority.

Appendix B: Consistency

B.1 In this appendix we set out analysis we undertook in relation to whether the actuarial valuations were carried out in a way which is not inconsistent with other valuations completed under the scheme regulations. This appendix contains comments and a number of charts referring to the following aspects:

> Key information

> Funding levels

> Discount rates

> Demographic assumptions

Key Information

B.2 Based on the recommendation in the 2016 report all funds provided a standardised dashboard of results. The standardised dashboard is provided below, but in green are suggested additional elements which have been recommended as part of the 2019 section 13 review.

Table B1: Dashboard

Item requested	**Format**
Past service funding position – local funding basis:	
Funding level (assets/liabilities)	%
Funding level (change since last valuation)	%
Asset value used at the valuation	*£m*
Value of liabilities	*£m*
Surplus (deficit)	*£m*
Discount rate – past service	*% pa*
Discount rate – future service used for contribution rate setting	*% pa*
Assumed pension increases (CPI)	*% pa*
Method of derivation of discount rate, plus any changes since the previous valuation	*Freeform text*
Assumed life expectancies at age 65:	
Average life expectancy for current pensioners – men currently age 65	*years*

Item requested	Format
Average life expectancy for current pensioners – women currently age 65	*years*
Average life expectancy for future pensioners – men currently age 45	*years*
Average life expectancy for future pensioners – women currently age 45	*years*

Past service funding position – SAB basis:	
Market value of assets	*£m*
Value of liabilities	*£m*
Funding level on SAB basis (assets/liabilities)	*%*
Funding level on SAB basis (change since last valuation)	*%*

Contributions rates payable:	*2019 Valuation*	*2022 Valuation*
Primary contribution rate (average for the fund)	*% pa*	*% pa*
Secondary contribution - 1st year of rates and adjustment certificate	*£m*	*£m*
Secondary contribution - 2nd year of rates and adjustment certificate	*£m*	*£m*
Secondary contribution - 3rd year of rates and adjustment certificate	*£m*	*£m*
Assumed payroll - 1st year of rates and adjustment certificate	*£m*	*£m*
Assumed payroll – 2nd year of rates and adjustment certificate	*£m*	*£m*
Assumed payroll – 3rd year of rates and adjustment certificate	*£m*	*£m*
Total expected contributions - 1st year of rates and adjustment certificate	*£m*	*£m*
Total expected contributions – 2nd year of rates and adjustment certificate	*£m*	*£m*
Total expected contributions – 3rd year of rates and adjustment certificate	*£m*	*£m*
Average total employer contribution rate (over the 3 years covered by the rates and adjustment certificate)	*%pa*	*% pa*
Average employee contribution rate (over the 3 years covered by the rates and adjustment certificate)	*%pa*	*% pa*
Employee contribution rate based on 1st year of rates and adjustment certificate assumed payroll	*£m*	*£m*

Item requested	Format	
Deficit recovery plan	*2019 Valuation*	*2022 Valuation*
Deficit/(Surplus) recovery period end date	*Year*	*Year*
Where a deficit recovery end date is not provided, please provide: time horizon for valuation funding plan	*Year*	*Year*
Likelihood of success of valuation funding plan on the 2019 time horizon	*%*	*%*

Additional information:	
Percentage of liabilities relating to employers with deficit recovery periods of longer than 20 years	%
Percentage of total liabilities that are in respect of Tier 3 employers	%

B.3 All information was included for the sample fund reports we considered in more detail listed below:

Fund
London Borough of Enfield Pension Fund (Aon)
London Borough of Sutton Pension Fund (Barnett Waddingham)
Derbyshire Pension Fund (Hymans Robertson)
Lancashire County Pension Fund (Mercer)

Funding Levels

B.4 Chart B1 shows how the ranking of local funding levels varies when results are restated onto the SAB standardised basis. We might expect the rankings of funding levels when calculated on the local bases to correspond roughly to the rankings of funding levels when calculated on the SAB standard basis. We would therefore expect the lines in Chart B1 joining each fund in the column on the left with itself in the column on the right to be roughly horizontal. However, we see that there is no clear correlation between how funds rank on local bases and how they rank on the SAB standard basis. To choose a typical example, Cheshire is ranked mid-table on the local basis but is towards the top quartile of the table on the SAB standard basis, indicating that their local fund basis is, relatively, more prudent than the other funds. To note we would expect the local funding basis to be prudent. A prudent basis is one where there is a greater than 50% likelihood that the available assets will cover the benefits in respect of accrued service when they fall due if assets are valued equal to liabilities.

Chart B1: Standardising Local Valuation Results

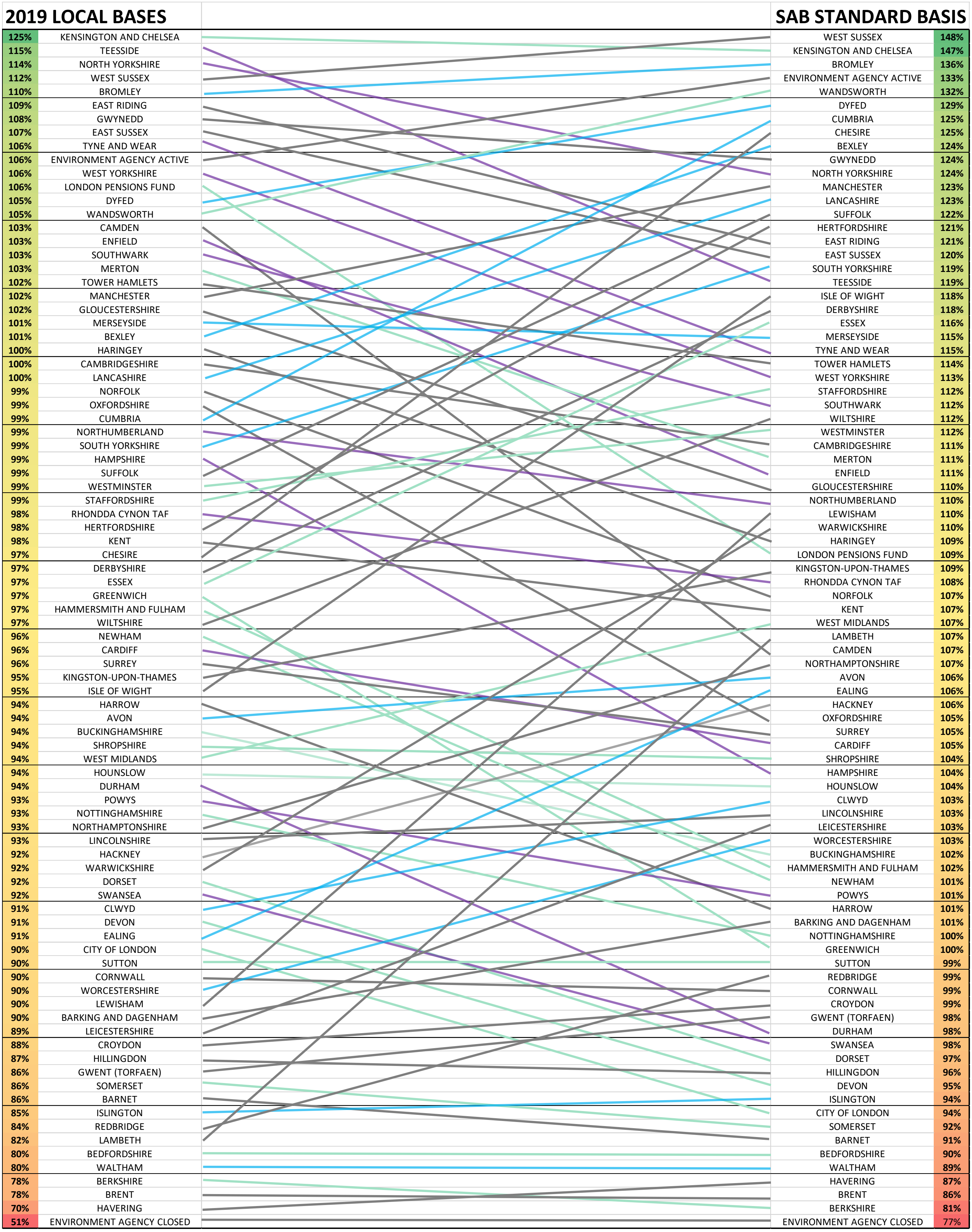
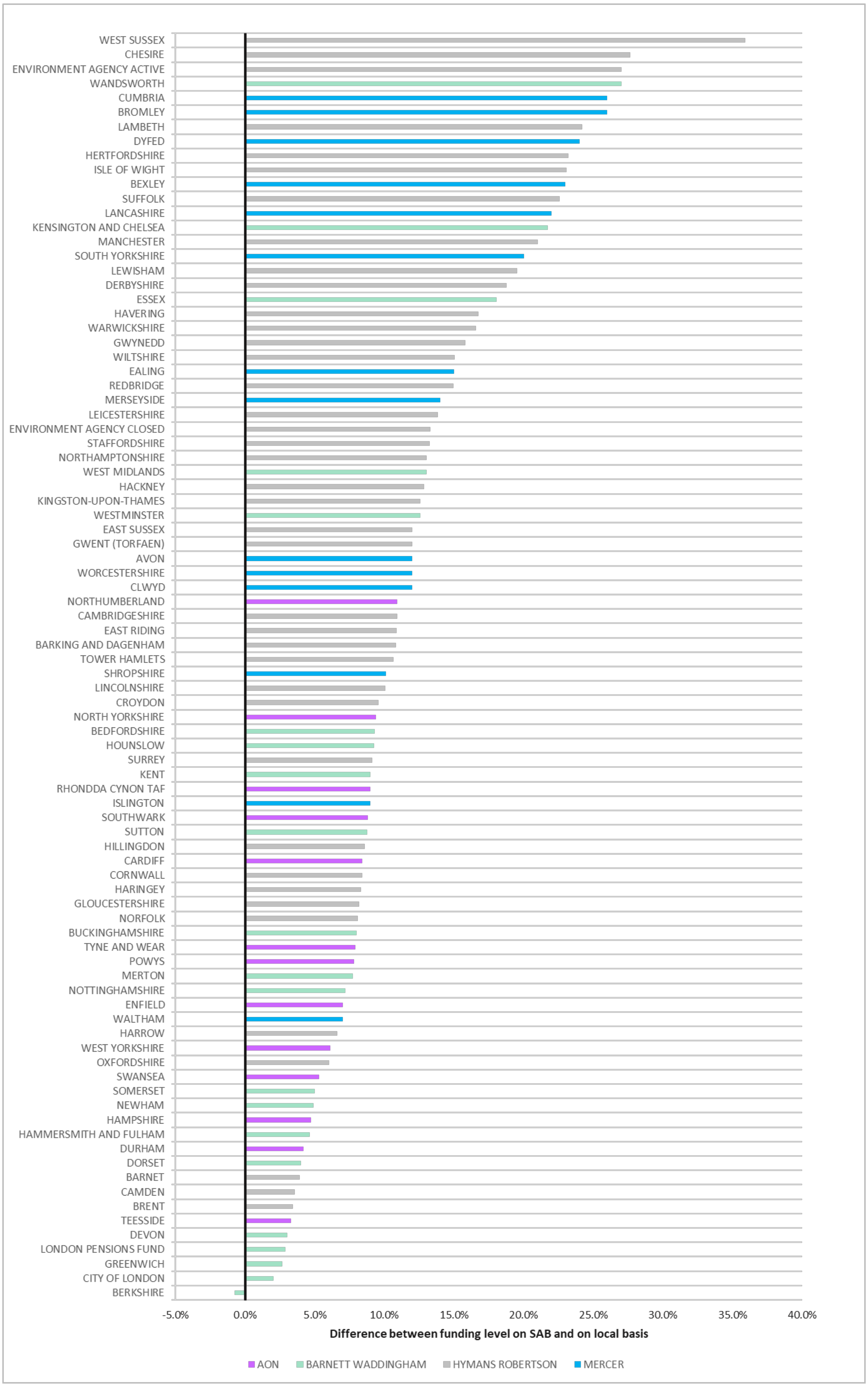


Chart B2: Difference Between Funding Level on SAB Standardised Basis and Funding Level on Local Bases



Discount Rates

B.5 Each firm of actuarial advisors applies their own method for calculating discount rates as shown in the table below.

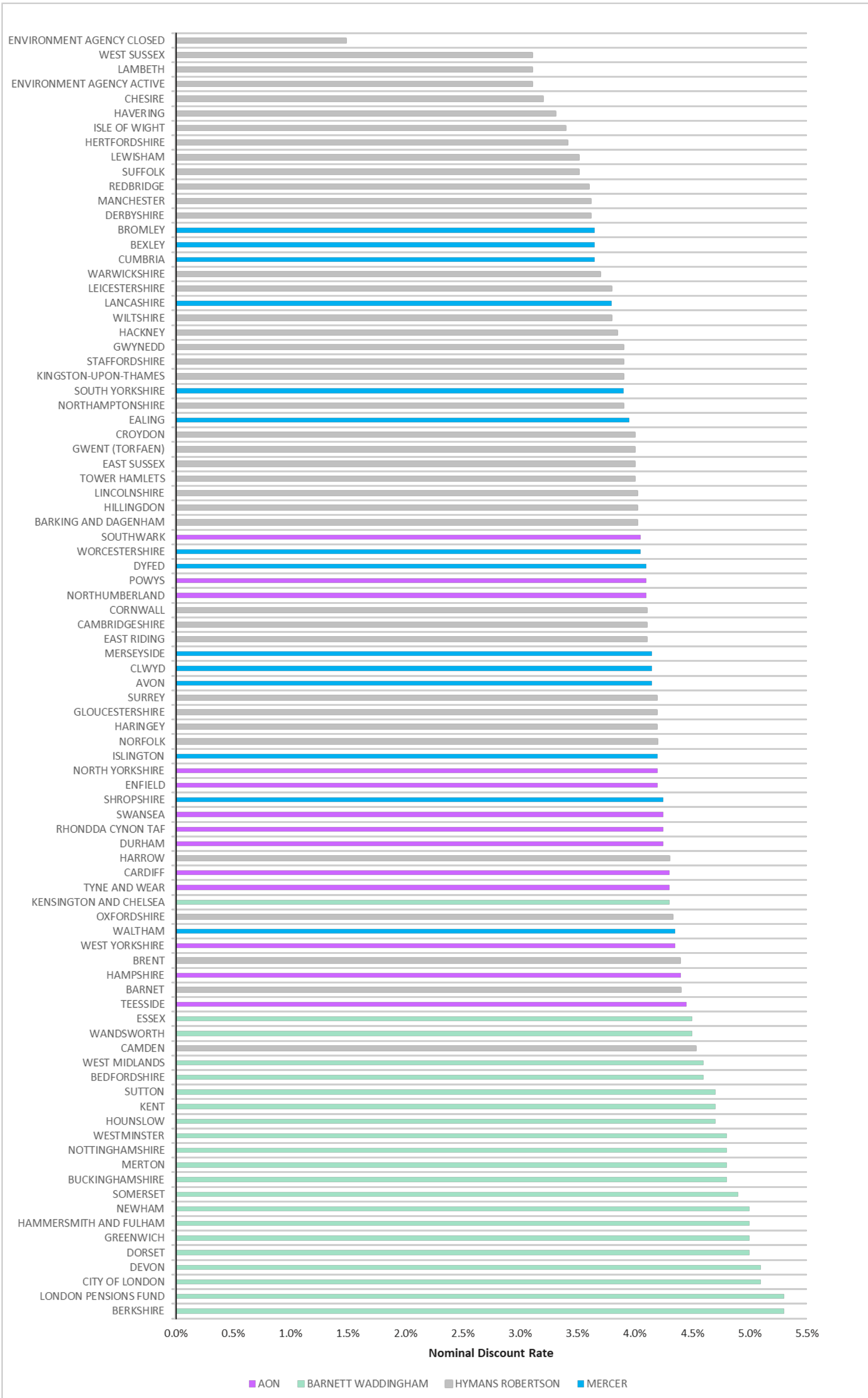
B.6 Chart B3 shows the pre-retirement discount rate used to assess past service liability applied in the actuarial valuations for each fund. Note that some funds (advised by Mercers') used different discount rates to assess past service liabilities and future service contribution rates, we consider only the former here.

B.7 The discount rates set by each fund are likely to be linked to the mix of assets held by the fund, and we would therefore expect to see differences in discount rate from fund to fund.

Table B2: Discount Rate Methodology

Fund	Discount rate methodology
London Borough of Enfield Pension Fund (Aon)	Stochastic modelling
London Borough of Sutton Pension Fund (Barnett Waddingham)	Weighted average expected return on long term asset classes
Derbyshire Pension Fund (Hymans Robertson)	Stochastic modelling
Lancashire County Pension Fund (Mercer)	Stochastic modelling

Chart B3: Pre – retirement Discount Rates



B.8 We assess implied asset outperformance as discount rate less risk free rate less RPI, where the risk free rate is taken to be the real 20 year Bank of England spot rate as at 31 March 2019 (-2.14%). Chart B4 shows the assumed asset out performance (“AOA”) over and above the risk free rate, where AOA is calculated as the fund’s nominal discount rate (“DR”) net of:

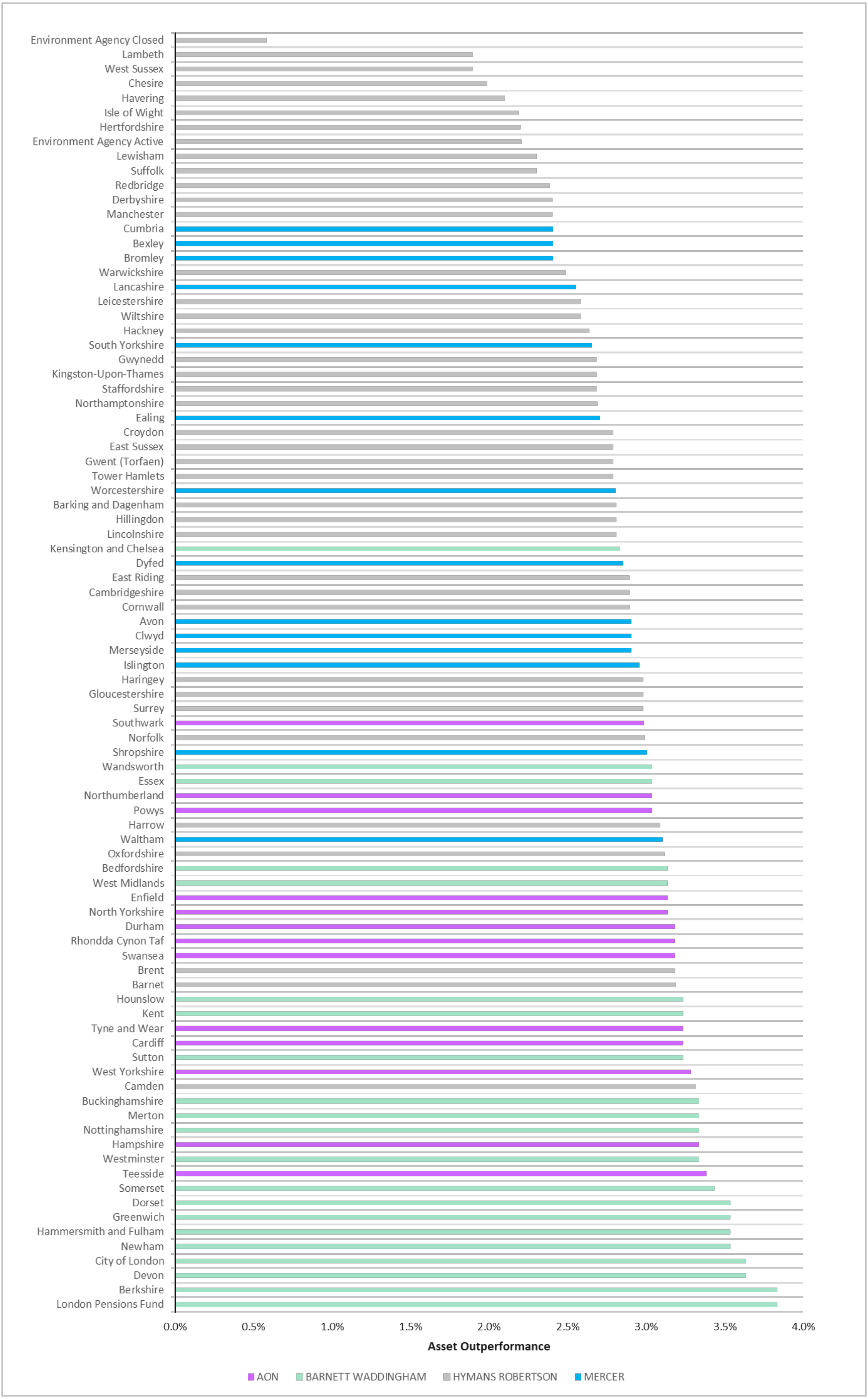
> The RFR – the real 20 year Bank of England spot rate as at 31 March 2019

> Assumed CPI – as assumed by the fund in their 2019 actuarial valuation

> The excess of assumed RPI inflation over assumed CPI inflation (“RPI– CPI”) – as assumed by the fund in their 2019 actuarial valuation i.e. $\mathrm{AOA} = \mathrm{DR} - \mathrm{RFR} - \mathrm{RPI}$. (Chart B4 shows the implied rate of asset outperformance for each fund.)

B.9 The implied asset outperformance shows less variation than in 2016. This may suggest some improvement in consistency in the assumption that in previous years. However, there is still a notable trend for funds advised by Aon and Barnett Waddingham to have higher levels of asset outperformance, whilst those advised by Hymans Robertson show lower levels of asset outperformance.

Chart B4: Assumed Asset Outperformance within Discount Rate



Demographic assumptions

B.10 Commutation assumptions (the extent to which members on average exchange pension in favour of a tax free cash benefit) are set as the percentage of the maximum commutable amount that a member is assumed to take on retirement. Chart B5 shows the assumed percentages for both pre 2008 and post 2008 pensions, which may be set separately.

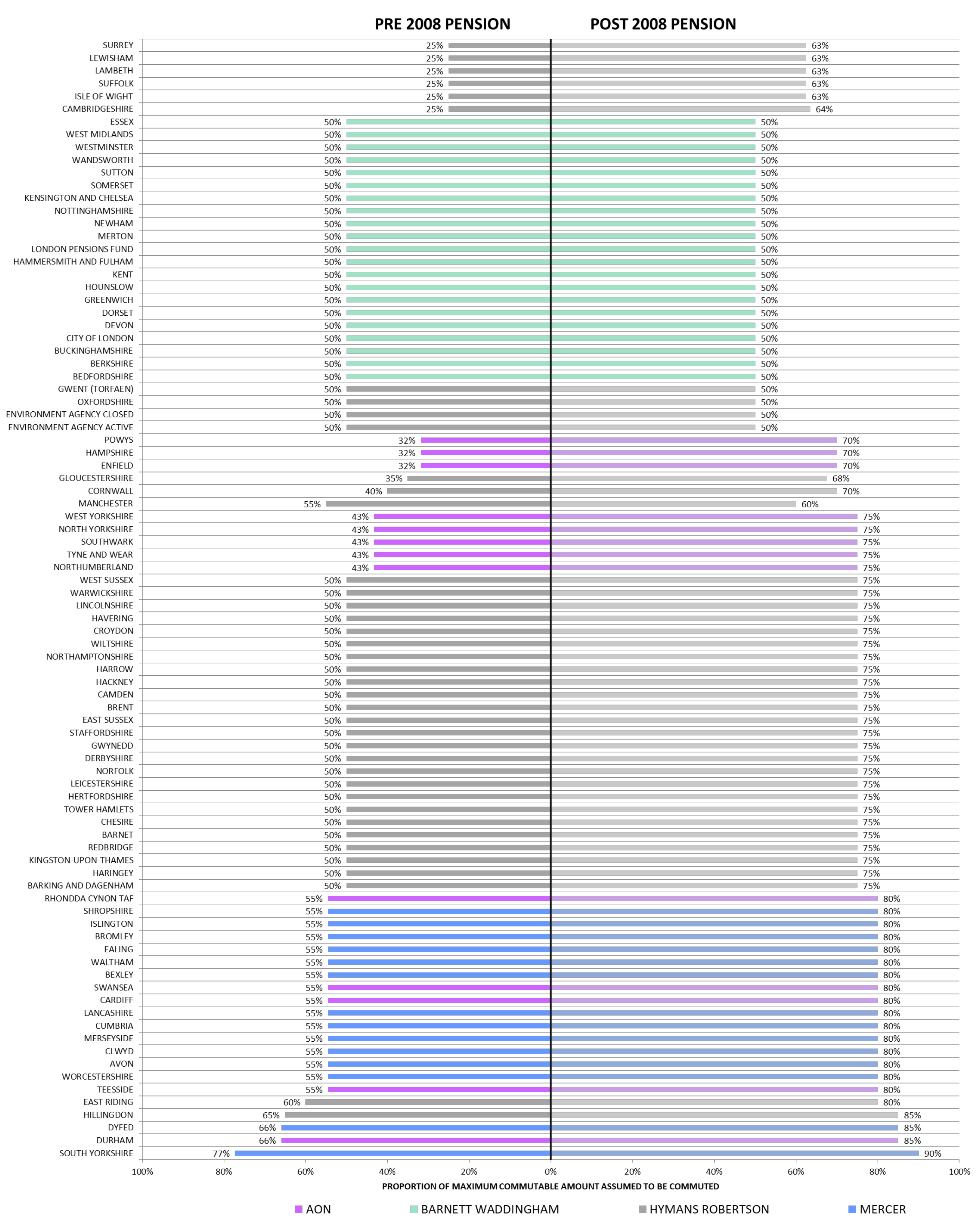
B.11 Other things being equal, it is more prudent to assume a lower rate of commutation, because the cost of providing a pension benefit is higher than the commutation factor. In addition, cash was provided as of right in the LGPS prior to 2008 whereas for benefits accrued after that date, cash was available only by commutation of pension.

B.12 The chart shows that the funds advised by Barnett Waddingham assume that members commute 50% of the maximum allowable cash amount. The majority of funds advised by Mercer assume that members take 80% of the maximum allowable cash amount. There is more variation in the commutation assumptions made by funds advised by Aon and Hymans Robertson. However, there is a noticeable cluster of funds assuming members commute 50% of the maximum allowable for pre 2008 pensions and 75% for post 2008 for Hymans Robertson clients.

B.13 If it is the case that firms of actuarial advisors find that there is insufficient data to make assumptions on a fund by fund basis, then it would be reasonable for them to make the assumption based on scheme wide data. However, each advisor only has access to the data from the funds that it advises, and therefore can only base their assumptions on the data from those funds. Another firm of actuarial advisors has access to the data for a different collection of funds and therefore might draw a different conclusion as to what the scheme wide average commutation rate is.

B.14 We encourage further discussions on how assumptions are derived based on local circumstances in valuation reports.

Chart B5: Commutation Assumptions for Pre and Post 2008 Pensions



Appendix C: Solvency

C.1 In this appendix we set out analysis we undertook in relation to whether the rate of employer contributions to the LGPS pension fund is set at an appropriate level to ensure the solvency of the pension fund. This appendix contains a description of:

> Solvency considerations

> Core Spending Power

> Mapping of solvency considerations to measures adopted

> Methodology used for solvency measures

> Table of outcomes for each fund

Potential for default

C.2 In the context of the LGPS:

> Our understanding based on confirmation from the Department for Levelling Up, Housing and Communities (DLUHC) is that, in contrast to employers in the private sector, there is no insolvency regime for local authorities

> Therefore, for the purposes of our analysis we assume that local authority sponsors cannot default on their pension liabilities through failure

> Members' benefits are therefore dependent on the assets of the scheme and future contributions from employers including local authorities

Solvency considerations

C.3 In assessing whether the conditions for solvency are met, we will have regard to:

Risks already present:

> funding level on the SAB standard basis

> whether or not the fund continues to be open to new members. If the fund is closed to new members or is highly mature and without any guarantee in place, we will focus on the ability to meet additional cash contributions.

> the ability of tax raising authorities to meet employer contributions

Emerging risks:

> the risks posed by changes to the value of scheme assets (to the extent that these are not matched by changes to the scheme liabilities)

> the proportion of scheme employers without tax raising powers or without statutory backing

C.4 We express the emerging risks in the context of Core Spending Power (for English local authorities, described below) or financing data (for Welsh local authorities). For funds which have no or limited Core Spending Power we have followed the same approach used in 2016 and the dry run.

Core Spending Power

C.5 GAD's stress tests are designed to test the ability of the underlying tax raising employers to meet a shock in the fund; one that results in a sustained reduction of the funding position, requiring remedial action from those employers in the form of long term additional contributions.

C.6 The purpose is to put this in the context of the financial resources available to those tax raising employers. In order to do that, DLUHC has pointed to an objective, well used and publicly available measure referred to as Core Spending Power. This applies for all local authorities across England and is published here.

C.7 Core Spending Power has the following components:

> Modified Settlement Funding Assessment

> Estimated Council Tax excluding Parish Precepts

> Potential additional Council Tax revenue from Adult Social Care flexibility

> Potential additional Council Tax revenue from £5 referendum principle for districts with lower quartile B and D

> Proposed Improved Better Care Fund

> Illustrative New Homes Bonus

> Rural Services Delivery Grant

C.8 GAD have referenced Core Spending Power for 2019-20 (to be consistent with the effective date of the data provided for section 13) as the measure of financial resource of the underlying (tax raising) employers, and amalgamated these up to the fund level, in order to compare like with like. The Core Spending Power 2019-20 data was subsequently revised, however the results were not revised as this was not material to GAD's recommendations.

C.9 Core Spending Power is not a measure of total local authority income. It does not include commercial income, sales fees and charges, or ring-fenced grants (except improved Better Care Fund). Core Spending Power includes an assumed modelled amount of locally retained business rates and as such does not include growth (or falls) in actual retained business rates. In some authorities, non-uniformed police employees participate in the LGPS, but their funding comes from Home Office. On the basis that the majority of this applies to uniformed police officers, no adjustment is made for it. Similarly, DfE funding for academies is not included.

C.10 Core Spending Power is publicly available and objective, therefore DLUHC have advised it is the best such measure available currently.

C.11 Core Spending Power does not apply to Welsh local authorities. For Welsh funds GAD have used "financing of gross revenue expenditure" ("financing data"), which is broadly comparable with Core Spending Power, following discussions with Welsh Government in 2016. This applies for all local authorities in Wales and is published here. The 2019-20 "financing of gross revenue expenditure" data was subsequently revised, however the results were not revised as this was not material to GAD's recommendations.

C.12 Financing data has the following components which GAD have included for the purpose of section 13 analysis:

> Adjustments (including amending reports)

- Council tax reduction scheme (including RSG element)
- Discretionary non-domestic rate relief
- General government grants
- Share of re-distributed non-domestic rates
- Amount to be collected from council tax

C.13 Financing data also has the following components which we have not included for the purpose of section 13 analysis:

- Specific grants
- Appropriations from(+) / to(-) reserves

C.14 We have referenced financing data for 2019-20 (to be consistent with the effective date of the data provided for section 13) as the measure of financial resource of the underlying (tax raising) employers, and amalgamated these up to the fund level, in order to compare like with like.

C.15 Similarly to Core Spending Power, financing data excludes income from sales, fees, and charges and we have excluded police funding from the analysis.

Solvency measures

C.16 The five solvency metrics adopted in the 2016 exercise have been adopted for the 2019 exercise. We developed and considered other measures but have excluded, for example the liability shock as it did not add value under current circumstances beyond what was already measured under asset shock.

Table C1: 2019 Solvency measures

Consideration	Measure Used
Risks already present:	
The relative ability of the fund to meet its accrued liabilities	**SAB funding level:** A fund's funding level using the SAB standard basis, as set out in Appendix G
The extent to which the fund continues to be open to new members. If a fund is closed to new members or is highly mature, we will focus on the ability to meet additional cash contributions	**Open fund:** Whether the fund is open to new members
The proportion of scheme employers without tax raising powers or without statutory backing	**Non-statutory members:** The proportion of members within the fund who are/were employed by an employer without tax raising powers or statutory backing
Emerging risks:	
The cost risks posed by changes to the value of scheme assets (to the extent that these are not matched by changes to the scheme liabilities)	**Asset shock:** The change in average employer contribution rates expressed as a percentage of Core Spending Power (or financing data) after a 15% fall in value of return-seeking assets
The impact that non-statutory employers defaulting on contributions would have on the income of sponsoring employers as a whole	**Employer default:** The change in average employer contribution rates as a percentage of Core Spending Power (or financing data) if all employers without tax raising powers or statutory backing default on their existing deficits

C.17 Emerging risk measures require assumptions. We used best estimate assumptions for this purpose, details of which can be found in Appendix G. Details of the methods used to calculate scores under each measure and the criteria used to assign a colour code can be found in this chapter.

Funds with no or low core spending

C.18 There were four funds with no or low core spending:

> City of London Corporation Pension Fund

> Environmental Agency Active Fund

> Environmental Agency Closed Fund

> London Pension Fund Authority Pension Fund

C.19 For each of these funds, we have reverted to the 2016 and dry run methodology for asset shock and employer default, which expressed the resulting additional contributions to meet the emerging deficit as a percentage of pensionable pay.

Solvency measures – methodology

C.20 We detail the methodology behind the measures used to assess a fund's solvency position. Some of the measures listed below were calculated using a market consistent set of assumptions. For more information on this best estimate basis please see Appendix G.

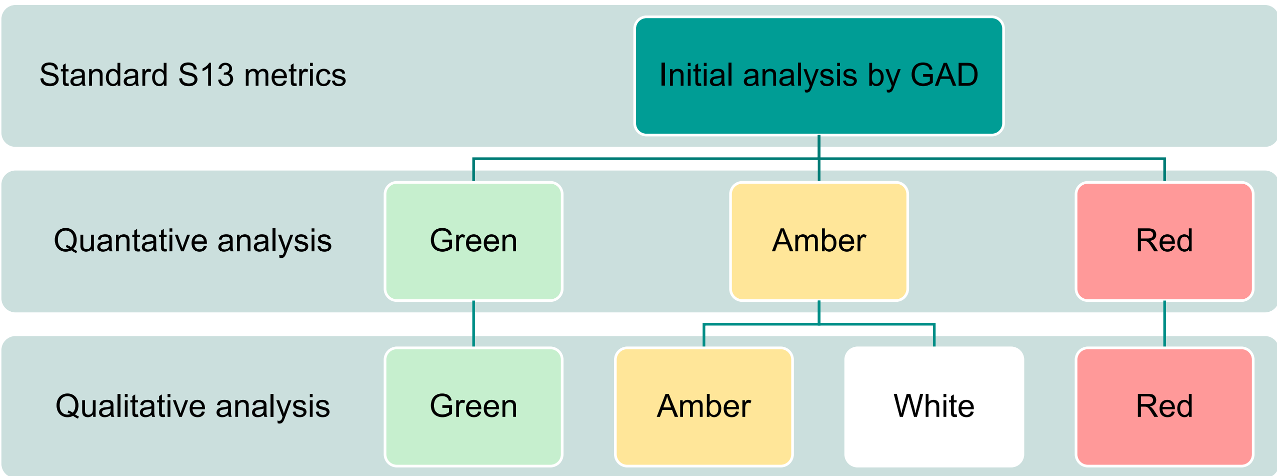
C.21 The 2016 exercise used red, amber and green ('RAG') flags for the solvency measure, where amber and red flags were raised when a fund breached thresholds set by GAD. For the 2019 exercise, GAD initially adopted the same RAG approach and 2016 thresholds, however the flag allocations were subsequently revised for the solvency measures taking into account to the following:

> The scheme funding position has improved significantly since 2016 (the aggregate funding position on prudent local bases improved from 85% to 98%)

> The size of funds has grown considerably over the past three years to 31 March 2019 but the ability of tax backed employers to increase contributions if required (as measured by core spending power and financing data) has not kept pace. This could pose a risk to the LGPS, for example if there is a severe shock to return seeking asset classes.

C.22 Following discussions with DLUHC, GAD agreed that it is not helpful to raise individual fund flags which have been primarily driven by the relatively larger increase in the size of funds relative to the possible contributions available and introduced the "white" flag. The white flag is an advisory flag that highlights a general risk but does not require action in isolation.

C.23 The chart below illustrates the steps taken by GAD in determining the flag colours for the metrics



C.24 The text box below defines each flag colour:

Key

RED indicates a material issue that may result in the aims of section 13 not being met. In such circumstances remedial action to ensure Solvency may be considered.

AMBER indicates a potential material issue that we 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.

WHITE is an advisory flag that highlights a general issue but one which does not require an action in isolation. It may have been an amber flag if we had broader concerns.

GREEN indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure Solvency.

C.25 GAD will assess the position at the time of the 2022 section 13 report and will decide whether to retain the white flag, return to the RAG approach or use other metrics/thresholds that are appropriate for the circumstances of the LGPS at that point in time.

SAB funding level: A fund's funding level using the SAB standard basis

C.26 This measure highlights possible risks to a fund as a result of assets being significantly lower than liabilities, where liabilities are those estimated on the SAB standard basis detailed in Appendix G.

C.27 A fund in deficit will need to pay additional contributions in order to meet the liabilities that have already been accrued.

C.28 This measure assesses the relative funding levels of individual funds. All funds have been ordered by this measure (highest funding level first) and the five funds ranked 83 to 87 out of 88 (i.e. not including Environment Agency Closed Fund) are assigned an amber code. All other funds are assigned a green colour code.

C.29 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised.

Open fund: Whether the fund is open to new members

C.30 A scheme that is closed to new members will be closer to maturity than a scheme which is still open. This creates a possible risk to sponsoring employees as there is less scope to make regular contributions and receive investment returns on those contributions. Additionally, if problems do occur with the scheme funding level, the reduced time to maturity of the scheme means that additional contributions must be spread over a shorter timeframe and could be more volatile as a result.

C.31 This measure is a 'Yes' when a fund is still open to new members and a 'No' otherwise. A 'Yes' results in a green colour code, while a 'No' results in a red colour code. As at 31 March 2019, the Environment Agency Closed Fund is the only closed fund. However, given that this fund has a DEFRA guarantee we consider it appropriate to set the flag to green in this circumstance.

C.32 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised.

Non-statutory members: The proportion of members within the fund who are employed by an employer without tax raising powers or statutory backing

C.33 We have considered taxpayer-backed employers of stronger covenant value than other employers. It is important, in this context, that administering authorities and other employers understand the potential cost that may fall on taxpayers in the future if employers without statutory backing or tax raising powers are unable to meet their required contributions and those with such powers become responsible for the accrued costs.

C.34 Data for this measure has been taken from the publicly available 'Local government pension scheme funds local authority data: 2019 to 20120' published by DLUHC here. The data contains the number of employees within each fund by employer group, where:

> Group 1 refers to local authorities and connected bodies

> Group 2 refers to centrally funded public sector bodies

> Group 3 refers to other public sector bodies and

> Group 4 refers to private sector, voluntary sector and other bodies

C.35 For the purposes of this measure, and unless information has been provided to the contrary, it has been assumed that employers listed under groups 1 and 2 are those with tax raising powers or statutory backing and that employers listed under groups 3 and 4 are those without tax raising powers or statutory backing.

C.36 The measure therefore gives the proportion of members within the fund that are/were employed by group 1 and 2 employers as a proportion of all members within the fund.

C.37 Under this measure a fund has been allocated an amber colour code if its proportion of members who are employed by an employer without tax raising powers or statutory backing is between 25% and 50%, a red colour code would allocated if the proportion is more than 50%.and a green colour code in all other cases.

C.38 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised.

Asset shock: 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

C.39 This measure shows the effect on total employer contribution rates of a one-off decrease in the value of a fund's return seeking assets equal to 15% of the value of those assets expressed as a percentage of Core Spending Power or financing data. Defensive assets are assumed to be unaffected.

C.40 For the purposes of this measure liabilities have been restated on the standardised best estimate basis and deficit recovery periods have been standardised using a period of 20 years to ensure that results are comparable.

C.41 For the scenario where a fund is in deficit after the asset shock (the funding level is less than 100% after the shock) and the threshold has been breached, then an amber flag is raised. However, where the fund is in surplus after the shock and the fund had breached the threshold, the fund will not raise a flag but the risk remains that such an event could bring forward the need to increase contributions.

C.42 Return-seeking asset classes are assumed to be:

- Equities (UK, Overseas and Unquoted or private equities)
- Property
- Infrastructure investments which are equity type
- “Other” return seeking investment

Defensive asset classes are assumed to be:

- Cash
- Bonds (Gilts, Corporate Bonds or index linked)
- “Other” defensive investments

C.43 We calculated the emerging deficit from the shock following a 15% fall in return seeking assets which would be attributed to the employers covered by core spending or financing data (which we refer to as “% tax raising employers” below):

$$\text{New Deficit} = (\text{Pre stress asset value} - \text{post stress asset value}) \times \% \text{ Tax raising employers}$$

We spread this over 20 years of annual payments and express as a percentage of Core Spending Power (or financing data for Welsh funds)

$$\frac{\text{New Deficit}}{\bar{a}_{20} \times \text{Core Spending Power}}$$

Where:

- new deficit is calculated on the standardised best estimate basis as at 31 March 2019
- $\bar{a}_{20}$ is a continuous annuity over the 20-year deficit recovery period at the rate of interest equal to $\frac{(1+i)}{(1+e)} - 1$.
- i is the nominal discount rate assumption on the standardised best estimate basis.
- e is the general earnings inflation assumption on the standardised best estimate basis

C.44 A fund is allocated an amber colour code if its result is above 3% and a green colour code otherwise.

C.45 For those funds with no/low core spending, the measure considered the change of contribution rate and was expressed as a percentage of pensionable pay, with an amber flag raised if that was greater than 5% and is in deficit after the asset shock. No results are available for the Environment Agency Closed Fund as there are no remaining active members within the fund with which to calculate contribution rates.

C.46 As set out in methodology section above, GAD undertook a subsequent qualitative analysis to consider whether it was felt that the risk identified was potentially material to the fund, and hence whether the amber flag should be maintained.

Employer default: The change in average employer contribution rates as a percentage of payroll if all employers without tax raising powers or statutory backing default on their existing deficits

C.47 LGPS regulations require employers to pay contributions set in the valuation. DLUHC has confirmed that:

> there is a guarantee of LGPS pension liabilities by a public body

> that public body is incapable of becoming insolvent, and

> the governing legislation is designed to ensure the solvency and long term economic efficiency of the Scheme.

C.48 It is important, in this context, that administering authorities and other employers understand the potential cost that may fall on taxpayers in the future if employers without statutory backing or tax raising powers are unable to meet their required contributions and those with such powers become responsible for the accrued costs.

C.49 A fund's deficit will not change as a result of the default, but as the deficit is spread over a smaller number of employers, the contribution rate for each remaining employer will increase.

C.50 For the purposes of this measure liabilities have been restated on the standardised best estimate basis and deficit recovery periods have been standardised using a period of 20 years to ensure that results are comparable.

C.51 For funds in surplus under the standardised best estimate basis, the flag colour for a fund is green, as there would be no deficits attributed to non-taxed backed employer, therefore the risk has been mitigated. The measure therefore considers those funds in deficit on the standardised best estimate basis.

C.52 We calculated the amount of deficit attributed to tax raising authorities if other public sector bodies & private sector, voluntary sector and other bodies were to default:

$$\text{Share of Deficit} = \text{Deficit} \times \%\,\text{non} - \text{tax raising employers}$$

C.53 We spread this over 20 years of annual payments and express as a percentage of Core Spending Power for most funds (Welsh funds use financing data and funds with no/low Core Spending use pensionable pay, as set out in C.55 below).

$$\frac{(\text{Share of Deficit})}{(\bar{a}_{20} \times \text{Core Spending Power})}$$

Where:

> Share of deficit is calculated on the standardised best estimate basis as at 31 March 2019

> $\bar{a}_{20}$ is a continuous annuity over the 20 year deficit recovery period at the rate of interest equal to $\frac{(1+i)}{(1+e)} - 1$.

> i is the nominal discount rate assumption on the standardised best estimate basis.

> e is the general earnings inflation assumption on the standardised best estimate basis

C.54 A fund is allocated an amber colour code if its result is greater than 3% and a green colour code otherwise.

C.55 For those funds with no/low core spending, the change of contribution rate was expressed as a percentage of pensionable pay, with an amber flag raised if that was greater than 2% and is in deficit after the asset shock. No results are available for the Environment Agency Closed Fund as there are no remaining active members within the fund with which to calculate contribution rates and Environmental agency closed as there is no SF3 data for the fund.

C.56 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised.

Solvency measures – by fund

Table C2: Solvency measures by fund

Pension fund	Open fund	SAB funding level	Non-Statutory employees	Asset shock	Employer default
Avon Pension Fund	Yes	106.0%	5.1%	2.2%	Surplus
Bedfordshire Pension Fund	Yes	89.3%	6.8%	2.2%	0.2%
Buckinghamshire County Council Pension Fund	Yes	102.0%	4.3%	2.1%	Surplus
Cambridgeshire Pension Fund	Yes	110.9%	9.2%	2.7%	Surplus
Cardiff and Vale of Glamorgan Pension Fund	Yes	104.2%	6.4%	1.5%	Surplus
Cheshire Pension Fund	Yes	124.9%	7.2%	Surplus	Surplus
City and County of Swansea Pension Fund	Yes	96.8%	3.7%	1.9%	0.0%
City of Westminster Pension Fund	Yes	111.2%	10.4%	2.9%	Surplus
Clwyd Pension Fund	Yes	103.0%	4.8%	1.4%	Surplus
Cornwall Pension Fund	Yes	98.7%	6.0%	1.3%	0.0%
Cumbria Local Government Pension Scheme	Yes	125.0%	6.8%	Surplus	Surplus
Derbyshire Pension Fund	Yes	115.8%	4.8%	Surplus	Surplus
Devon County Council Pension Fund	Yes	95.7%	5.2%	2.3%	0.1%
Dorset County Pension Fund	Yes	96.2%	4.7%	2.2%	0.1%
Durham County Council Pension Fund	Yes	98.0%	3.4%	2.4%	0.0%
Dyfed Pension Fund	Yes	129.0%	3.7%	Surplus	Surplus
East Riding Pension Fund	Yes	120.0%	2.6%	Surplus	Surplus
East Sussex Pension Fund	Yes	118.7%	1.7%	Surplus	Surplus
Essex Pension Fund	Yes	115.1%	9.1%	2.3%	Surplus
Gloucestershire County Council Pension Fund	Yes	109.9%	9.5%	2.4%	Surplus

Pension fund	Open fund	SAB funding level	Non-Statutory employees	Asset shock	Employer default
Greater Gwent (Torfaen) Pension Fund	Yes	97.7%	7.8%	1.7%	0.0%
Greater Manchester Pension Fund	Yes	123.3%	22.6%	Surplus	Surplus
Gwynedd Pension Fund	Yes	123.9%	3.3%	Surplus	Surplus
Hampshire County Council Pension Fund	Yes	103.6%	3.4%	2.6%	Surplus
Hertfordshire County Council Pension Fund	Yes	121.2%	5.4%	Surplus	Surplus
Isle of Wight Council Pension Fund	Yes	118.0%	2.7%	Surplus	Surplus
Islington Council Pension Fund	Yes	94.0%	6.1%	3.1%	0.1%
Kent County Council Pension Fund	Yes	107.4%	8.6%	2.5%	Surplus
Lancashire County Pension Fund	Yes	122.0%	8.2%	Surplus	Surplus
Leicestershire County Council Pension Fund	Yes	102.8%	1.4%	2.2%	Surplus
Lincolnshire Pension Fund	Yes	102.8%	2.8%	2.3%	Surplus
London Borough of Barking and Dagenham Pension Fund	Yes	100.4%	4.7%	2.7%	0.0%
London Borough of Barnet Pension Fund	Yes	89.8%	30.5%	1.4%	0.7%
London Borough of Bexley Pension Fund	Yes	124.0%	4.3%	Surplus	Surplus
London Borough of Brent Pension Fund	Yes	81.0%	17.1%	1.6%	0.6%
London Borough of Bromley Pension Fund	Yes	136.0%	12.9%	Surplus	Surplus
London Borough of Camden Pension Fund	Yes	106.5%	11.2%	3.5%	Surplus
London Borough of Croydon Pension Fund	Yes	98.0%	5.5%	1.5%	0.0%
London Borough of Ealing Pension Fund	Yes	106.0%	0.7%	1.7%	Surplus
London Borough of Enfield Pension Fund	Yes	110.2%	1.4%	1.5%	Surplus
London Borough of Hackney Pension Fund	Yes	105.2%	2.1%	2.7%	Surplus

Pension fund	Open fund	SAB funding level	Non-Statutory employees	Asset shock	Employer default
London Borough of Hammersmith and Fulham Pension Fund	Yes	101.3%	6.0%	2.7%	Surplus
London Borough of Haringey Pension Fund	Yes	108.7%	1.2%	2.7%	Surplus
London Borough of Harrow Pension Fund	Yes	100.8%	0.3%	2.2%	0.0%
London Borough of Havering Pension Fund	Yes	86.4%	1.5%	1.3%	0.0%
London Borough of Hillingdon Pension Fund	Yes	95.4%	1.2%	1.5%	0.0%
London Borough of Hounslow Pension Fund	Yes	103.2%	10.7%	2.4%	Surplus
London Borough of Lambeth Pension Fund	Yes	106.6%	1.0%	2.2%	Surplus
London Borough of Lewisham Pension Fund	Yes	109.5%	6.0%	2.0%	Surplus
London Borough of Merton Pension Fund	Yes	110.6%	2.1%	2.4%	Surplus
London Borough of Newham Pension Fund	Yes	100.8%	6.9%	1.8%	0.0%
London Borough of Redbridge Pension Fund	Yes	99.0%	10.9%	2.1%	0.0%
London Borough of Southwark Pension Fund	Yes	111.8%	3.0%	2.7%	Surplus
London Borough of Tower Hamlets Pension Fund	Yes	112.7%	6.4%	2.5%	Surplus
London Borough of Waltham Forest Pension Fund	Yes	87.0%	3.4%	1.6%	0.1%
Merseyside Pension Fund	Yes	115.0%	11.6%	3.6%	Surplus
Norfolk Pension Fund	Yes	107.4%	8.4%	2.4%	Surplus
North Yorkshire Pension Fund	Yes	123.4%	4.8%	Surplus	Surplus
Northamptonshire Pension Fund	Yes	106.1%	4.8%	2.3%	Surplus
Northumberland County Council Pension Fund	Yes	109.9%	3.9%	2.8%	Surplus
Nottinghamshire County Council Pension Fund	Yes	100.2%	4.8%	3.2%	0.0%
Oxfordshire County Council Pension Fund	Yes	105.2%	4.3%	3.2%	Surplus

Pension fund	Open fund	SAB funding level	Non-Statutory employees	Asset shock	Employer default
Powys County Council Pension Fund	Yes	101.0%	5.5%	1.3%	0.0%
Rhondda Cynon Taf County Borough Council Pension Fund	Yes	107.4%	5.8%	2.4%	Surplus
Royal Borough of Greenwich Pension Fund	Yes	99.4%	3.4%	2.6%	0.0%
Royal Borough of Kensington and Chelsea Pension Fund	Yes	146.5%	4.0%	Surplus	Surplus
Royal Borough of Kingston Upon Thames Pension Fund	Yes	107.8%	7.4%	2.1%	Surplus
Royal County of Berkshire Pension Fund	Yes	77.2%	6.0%	1.5%	0.3%
Shropshire County Pension Fund	Yes	104.1%	9.5%	2.1%	Surplus
Somerset County Council Pension Fund	Yes	91.0%	8.9%	2.5%	0.3%
South Yorkshire Pension Fund	Yes	119.0%	9.3%	Surplus	Surplus
Staffordshire Pension Fund	Yes	111.8%	5.9%	3.0%	Surplus
Suffolk Pension Fund	Yes	121.4%	4.9%	Surplus	Surplus
Surrey Pension Fund	Yes	104.7%	4.4%	2.3%	Surplus
Sutton Pension Fund	Yes	99.1%	2.4%	1.3%	0.0%
Teesside Pension Fund	Yes	118.1%	7.2%	Surplus	Surplus
Tyne and Wear Pension Fund	Yes	114.0%	12.1%	4.3%	Surplus
Wandsworth Council Pension Fund	Yes	132.2%	4.4%	Surplus	Surplus
Warwickshire Pension Fund	Yes	108.9%	0.0%	3.0%	Surplus
West Midlands Pension Fund	Yes	106.8%	8.6%	2.8%	Surplus
West Sussex County Council Pension Fund	Yes	147.5%	4.7%	Surplus	Surplus
West Yorkshire Pension Fund	Yes	112.1%	12.7%	4.1%	Surplus
Wiltshire Pension Fund	Yes	111.6%	27.0%	2.9%	Surplus

Pension fund	Open fund	SAB funding level	Non-Statutory employees	Asset shock	Employer default
Worcestershire County Council Pension Fund	Yes	102.0%	7.9%	2.5%	Surplus
City of London Corporation Pension Fund*	Yes	92.4%	10.9%	3.6%	0.5%
London Pensions Fund Authority Pension Fund*	Yes	108.6%	18.3%	7.3%	Surplus
Environment Agency Active Fund*	Yes	132.8%	N/A	Surplus	N/A
Environment Agency Closed Fund*	No	64.6%	N/A	N/A	N/A

Notes:
1. Funding levels are on the SAB standard basis.
2. The liability value and salary roll figures in the maturity indicator are as at 31 March 2019. The liability value was calculated on the standardised best estimate basis.
3. For funds marked * against asset shock we have assessed the shock as a percentage of pensionable pay (as we did in the 2016 and the dry run).

Appendix D: Long term cost efficiency

D.1 We developed a series of relative and absolute considerations to help assess whether the contributions met the aims of section 13 under long term cost efficiency. This appendix contains a description of:

> Mapping of long term cost efficiency considerations to measures adopted

> Methodology used for long term cost efficiency measures

> Engagement with funds which flagged on LTCE measures

> Table of outcomes for each fund

Long term cost efficiency – considerations and methodology

Table D1: Long term cost efficiency considerations and measures

Consideration	Measure Used
Relative considerations:	
The implied deficit recovery period	**Deficit Period:** Implied deficit recovery period calculated on a standardised best estimate basis (SAB Actuarial (section 13) key indicator 2)
The investment return required to achieve full funding	**Required Return:** The required investment return rates to achieve full funding in 20 years' time on a standardised best estimate basis (SAB Actuarial (section 13) key indicator 3)
The pace at which the deficit is expected to be paid off	**Repayment Shortfall:** The difference between: actual contribution in excess of GAD's best estimate of future service cost and the annual deficit recovery contributions required as a percentage of payroll to pay off the deficit in 20 years, where the deficit is calculated on a standardised best estimate basis
Absolute Considerations:	
The extent to which the required investment return above is less than the estimated future return being targeted by a fund's investment strategy	**Return Scope:** The required investment return rates as calculated in required return (i.e. SAB Actuarial (section 13) key indicator 3), compared with the fund's expected best estimate future returns assuming current asset mix maintained (SAB Actuarial (section 13) key indicator 3)
The extent to which any deficit recovery plan can be reconciled with, and can be demonstrated to be a continuation of, the previous deficit recovery plan, after allowing for actual fund experience	**Deficit Reconciliation:** Confirmation that the deficit period can be demonstrated to be a continuation of the previous deficit recovery plan, after allowing for actual fund experience

D.2 For the 2019 section 13 report, GAD has adopted the same measures as those in 2016. However, a further qualitative step was introduced to consider whether it was felt that the risk identified was potentially material to the fund.

D.3 Three of these measures were selected from the Actuarial section 13 KPIs defined by the SAB. The selected SAB measures have been augmented with two additional measures which we believe are appropriate in helping to assess whether the aims of section 13 are met.

D.4 The analyses and calculations carried out under these long term cost efficiency measures are approximate. They rely on the accuracy of the data provided by the respective local firms of actuarial advisors.

D.5 Although the calculations are approximate, we consider they are sufficient for the purposes of identifying which funds are a cause for concern. While the measures should not represent targets, these measures help us determine whether a more detailed review is required for example, we would have concern where multiples measures triggered amber for a given fund.

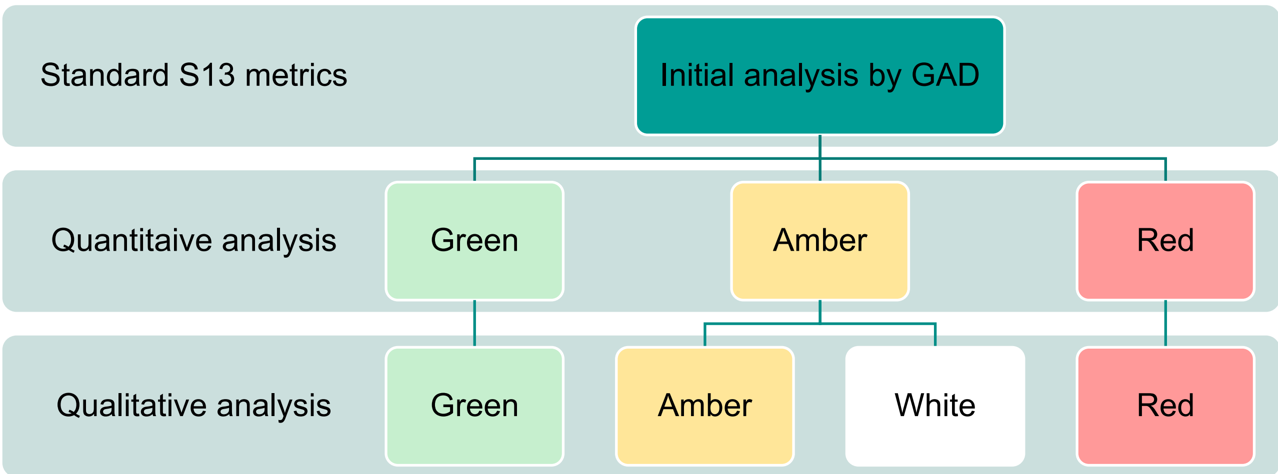
Long term cost efficiency measures – methodology

D.6 We detail the methodology behind the measures used to assess a fund's long term cost efficiency position below. Some of the measures listed below were calculated using a market consistent set of assumptions. For more information on this best estimate basis please see Appendix G.

D.7 The 2016 exercise used Red, Amber or Green ('RAG') flags for the solvency measure, where amber and red flags were raised when a fund breached thresholds set by GAD. For the 2019 exercise, GAD initially adopted the same RAG approach and 2016 thresholds, however the flag allocation was subsequently revised for the long term cost efficiency measures as GAD wished to concentrate on funds which raised multiple amber flags. GAD also introduced a subsequent qualitative measure, which considered the funding level relative to contributions graph, which assisted GAD on determining whether to flag and/or engage with a fund.

D.8 Following discussions with DLUHC, GAD agreed that it is not helpful to raise individual fund flags but rather concentrate on funds with multiple flags and this resulted in the introduction of a "white" flag. The white flag is an advisory flag that highlights a general risk but does not require action in isolation.

D.9 The chart below illustrates the steps taken by GAD in determining the flag colours for the metrics



D.10 The text box below defines each flag colour:

Key

RED indicates a material issue that may result in the aims of section 13 not being met. In such circumstances remedial action to ensure Solvency may be considered.

AMBER indicates a potential material issue that we 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.

WHITE is an advisory flag that highlights a general issue but one which does not require an action in isolation. It may have been an amber flag if we had broader concerns.

GREEN indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure Solvency.

D.11 GAD will assess the position at the 2022 section 13 and will decide whether to retain the white flag, return to the RAG approach or use other metrics/thresholds that are appropriate for the circumstances of the LGPS at that point in time.

Deficit period: The implied deficit recovery period calculated on a standardised best estimate basis

D.12 This measure is based on SAB Actuarial (section 13) key indicator 2. However, as the SCAPE discount rate used in the SAB standard basis is not market-related, the calculations are done on a standardised best estimate basis.

D.13 The implied deficit recovery period on the standardised best estimate basis was found by solving the following equation for x:

D.14 $$\bar{a}_x = \frac{\text{Deficit on standardised BE basis}}{\text{Annual deficit recovery payment on standardised BE basis}}$$

Where:

- x is the implied deficit recovery period.
- $\bar{a}_x$ is a continuous annuity over x years at the rate of interest equal to $\frac{(1+i)}{(1+e)} - 1$.
- i is the nominal discount rate assumption on the standardised best estimate basis.
- e is the general earnings inflation assumption on the standardised best estimate basis.
- The deficit on the standardised best estimate basis is as at 31 March 2019.
- The annual deficit recovery payment on the standardised best estimate basis is calculated as the difference between the average employer contribution rate for the years 2020/21 to 2022/23, allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund, where deficit contributions are fixed (i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll), and the employer standard contribution rate on the standardised best estimate basis for the years 2020/21 to 2022/23 (which is assumed to be equal to the future cost of accrual of that particular fund).

D.15 Funds that were in surplus or where the implied deficit recovery period was less than 10 years were flagged as green. Those with recovery periods greater than or equal to 10 years were flagged as amber. If there were any funds that were paying contributions at a level that would result in an increase in deficit, they would have been flagged as red.

D.16 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised based on whether multiple flags were raised for a fund.

Required return: The required investment return rates to achieve full funding in 20 years' time on the standardised best estimate basis

D.17 This measure is based on SAB Actuarial (section 13) key indicator 3. However, as the SCAPE discount rate used in the SAB standard basis is not market related, the calculations are done on a standardised best estimate basis.

D.18 The following assumptions were made for the purposes of this calculations:

> Time 0 is 31 March 2019.

> Time 20 is 31 March 2039.

> A_0 is the value of the fund's assets at time 0, and was obtained from the data provided by the local firms of actuarial advisors.

> A_{20} is the projected value of the fund's assets at time 20 (using the equation below)

> L_0 is the value of the fund's liabilities at time 0, on a standardised best estimate basis

> L_{20} is the projected value of the fund's liabilities at time 20 (using the equation below)

> C_0 is one year's employer contributions paid from time 0

> C_{0-20} is the total employer contributions payable over the period time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10)

> B_0 is the value of one year's benefits paid (excluding transfers) from time 0

> B_{0-20} is the total value of benefits payable (excluding transfers) over the period time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10).

> SCR_0 is the standard contribution rate payable from time 0 to time 1 on a standardised best estimate basis.

> SCR_{0-20} is the standard contribution rate payable from time 0 – 20, assumed to occur mid-way between time 0 and time 20 (i.e. at time 10).

> Sal_0 is the salary roll at time 0 and was obtained from the data provided by the local firms of actuarial advisors.

> i is the nominal discount rate assumption on the standardised best estimate basis.

> e is the general earnings assumption on the standardised best estimate basis.

> x is the required investment return that is to be calculated

D.19 The membership profile is assumed to be constant.

D.20 The assets and liabilities at time 20 were then equated and the resulting quadratic equation solved to find the required rate of investment return to achieve full funding, i.e.:

$$A_{20} - L_{20} = 0$$

Where:

- $A_{20} = [A_0 \times (1+x)^{20}] + [(C_{0-20} - B_{0-20}) \times (1+x)^{10}]$
- $L_{20} = [L_0 \text{ x } (1+i)^{20}] + [(SCR_{0-20} - B_{0-20}) \times (1+i)^{10}]$
- $C_{0-20} = C_0 \times 20 \times (1+e)^{10}$
- $B_{0-20} = B_0 \times 20 \times (1+e)^{10}$
- $SCR_{0-20} = Sal_0 \times SCR_0 \times 20 \times (1+e)^{10}$

D.21 Where the required investment return was higher than the nominal discount rate on the standardised best estimate basis (i.e. i where i = 4.30%) funds would be classified as amber, whereas funds were classified as green if the required return was less than i.

D.22 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised based on whether multiple flags were raised for a fund.

Repayment shortfall: The difference between the actual contribution rate net of GAD's best estimate future service cost and the annual deficit recovery contributions (on a standardised best estimate basis and assuming deficit is paid off in 20 years), as a percentage of payroll

D.23 This measure is an extension from the deficit period measure, as it considers the affordability of the deficit on GAD's best estimate basis. For this calculation we determine the difference between:

- The employer contributions in excess of GAD's best estimate future service cost, and
- The required annual deficit recovery contribution rate on a standardised best estimate basis to pay off the deficit in 20 years' time (the 20 year deficit recovery period is based on the SAB Actuarial (section 13) key indicator 3)

D.24 The required annual deficit recovery contribution rate to be paid on a standardised best estimate basis is equal to:

$$\frac{\text{Deficit on standardised best estimate basis}}{\bar{a}_{20} \times \text{ Salary Roll}}$$

Where:

- The deficit on the standardised best estimate basis is as at 31 March 2019.
- $\bar{a}_{20}$ is a continuous annuity over the 20 year deficit recovery period at the rate of interest equal to $\frac{(1+i)}{(1+e)} - 1$.
- i is the nominal discount rate assumption on the standardised best estimate basis.
- e is the general earnings inflation assumption on the standardised best estimate basis.
- The salary roll is as at 31 March 2019 and has not been adjusted.

D.25 The difference in deficit recovery contribution rates is then defined as:

$$(\text{Avg ER cont rate paid} - \text{ER SCR on BE basis}) - \frac{\text{Deficit on BE basis}}{\bar{a}_{20} \text{ x Salary Roll}}$$

Where:

- The average employer contribution rate is for the years 2020/21 – 2022/23, allowing for both contributions paid as a percentage of salary and fixed monetary contributions into the fund where deficit contributions are fixed (i.e. the fixed monetary contributions, if any, have been converted so that they are quoted as a percentage of salary roll).
- The employer standard contribution rate on the standardised best estimate basis is for the years 2020/21 – 2022/23. It is assumed that the standard contribution rate is equal to the future cost of accrual of that particular fund.

D.26 The data required for each of the funds to carry out the above calculation was provided by their respective firms of actuarial advisors.

D.27 Where appropriate data has been restated on the standardised best estimate basis.

D.28 Funds in surplus on GAD's best estimate basis or where the difference in deficit recovery contribution rates is greater than 0% are flagged as green. Where the difference between contribution rates is between 0% and -3%, the funds would be flagged as amber and if the difference in deficit recovery contribution rates is less than -3%, then the fund would be flagged as red.

D.29 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised based on whether multiple flags were raised for a fund.

Return scope: The required investment return rates as calculated in required return, compared with the fund's expected best estimate future returns assuming current asset mix maintained

D.30 This measure is based on SAB Actuarial (section 13) key indicator 3.

D.31 The required investment return (x) calculated in the required return measure was compared against the best estimate investment return expected from the fund's assets held on 31 March 2019.

D.32 The asset data used in this calculation was provided by each fund's respective firm of actuarial advisors.

D.33 Funds where the best estimate future returns were higher than the required investment return by 0.5% or more were flagged as green. Those funds where this difference was between 0% and 0.5% would be flagged as amber whilst those where the best estimate returns were lower than the required investment returns were flagged as red.

D.34 As set out in methodology section above, GAD undertook a subsequent qualitative analysis on whether flag colours should be revised based on whether multiple flags were raised for a fund.

Deficit reconciliation: Confirmation that the deficit period can be demonstrated to be a continuation of the previous deficit recovery plan, after allowing for actual fund experience

D.35 This measure is used to monitor the change in the deficit recovery end point set locally by the fund at each valuation and what the underlying reasons are for any adverse changes in this period.

D.36 This measure considers the following:

- Whether contributions have decreased since the previous valuations (reducing the burden on current tax payers)
- Whether the deficit recovery end point has moved further into the future, compared with the previous valuation (increasing the burden on future tax payers)

D.37 Funds where both of the above have occurred are flagged amber otherwise funds are flagged green. There was no allowance for white flags as this measure indicates a material issue that funds should be aware of.

Long term cost efficiency measures – engagement

D.38 The metrics set out above and qualitative analysis of funds funding position relative to the contribution helped determine which funds GAD would engage with to discuss the potential material and material risks and the general issues that arose from the analysis. The approach used for determining whether to engage with funds was based on the approach set out in paragraph D.7, however GAD undertook two types of engagements:

- "Full" Engagement –discussion with funds for which a combination of flags for were raised, which raised material or potentially material risks
- "Light" Engagement – discussion with funds where a combination of flags was not raised but which were close to flagging and therefore may want to take action to avoid the likelihood of being flagged in the section 13 report following the 2022 valuation

Full engagement

D.39 The four funds for which GAD held a "Full" engagement with set out in the main report are City of London Corporation Pension Fund, Royal County of Berkshire Pension Fund, Islington County Pension Fund and Devon County Council Pension Fund. The engagement with all funds was constructive.

D.40 Following the initial engagement Islington County Pension Fund committed to making an additional contribution which was sufficient to remove the flags raised.

D.41 Further Devon County Council Pension Fund confirmed a post valuation investment had been made which was again sufficient prove their position to remove the concerns

Light Engagement

D.42 GAD also engaged with funds with funds where a combination of flags were not raised but where some flags may been raised and where the funding level and contribution levels were low relative to the other LGPS funds. The funds which GAD engaged with were:

- Dorset County Pension Fund (Barnett Waddingham)
- London Borough of Newham Pension Fund (Barnett Waddingham)
- Royal Borough of Greenwich Pension Fund (Barnett Waddingham)
- Somerset County Council Pension Fund (Barnett Waddingham)
- London Borough of Waltham Forest (Mercer)

D.43 The engagement with these funds was positive and GAD explained that whilst these funds were not part of the "full" engagement there were concerns regarding the position of these funds and that the funds may wish to take action in order to reduce the likelihood of being flagged in the section 13 report following the 2022 valuation.

Long term cost efficiency measures – by fund

Table D2: Long term cost efficiency measures by fund

Pension fund	Maturity (rank)	Deficit period (rank)	Required return (rank)	Repayment shortfall	Return scope (rank)	Deficit recovery plan
Avon Pension Fund	7.5 (52)	Surplus	3.3% (48)	Surplus	0.8% (61)	Green
Bedfordshire Pension Fund	6.6 (84)	8 (76)	3.4% (51)	5.7%	0.3% (77)	Green
Buckinghamshire County Council Pension Fund	6.6 (85)	Surplus	3.4% (54)	Surplus	0.6% (70)	Green
Cambridgeshire Pension Fund	7 (68)	Surplus	3.1% (39)	Surplus	1.6% (23)	Green
Cardiff and Vale of Glamorgan Pension Fund	7.2 (65)	Surplus	3.6% (67)	Surplus	0.7% (67)	Green
Cheshire Pension Fund	7.7 (41)	Surplus	2.4% (10)	Surplus	1.2% (38)	Green
City and County of Swansea Pension Fund	7.3 (59)	6 (74)	3.7% (72)	3.9%	0.9% (53)	Green
City of Westminster Pension Fund	10.9 (1)	Surplus	0.3% (1)	Surplus	4.3% (1)	Green
Clwyd Pension Fund	7.3 (61)	Surplus	3% (35)	Surplus	0.9% (55)	Green
Cornwall Pension Fund	7.3 (62)	3 (69)	3.4% (55)	5.7%	0.3% (78)	Green
Cumbria Local Government Pension Scheme	8 (26)	Surplus	2.4% (12)	Surplus	1.2% (35)	Green
Derbyshire Pension Fund	6.9 (73)	Surplus	3.2% (40)	Surplus	1% (50)	Green
Devon County Council Pension Fund	7.6 (43)	15 (85)	4.2% (86)	0.8%	0.6% (71)	Green
Dorset County Pension Fund	7.5 (53)	9 (78)	4% (83)	2.2%	0.3% (79)	Green
Durham County Council Pension Fund	8 (29)	5 (71)	3.7% (70)	4.1%	-0.1% (85)	Green
Dyfed Pension Fund	6.8 (76)	Surplus	2.9% (26)	Surplus	1.6% (19)	Green
East Riding Pension Fund	7.3 (58)	Surplus	2.9% (25)	Surplus	1.7% (18)	Green
East Sussex Pension Fund	7.5 (50)	Surplus	3.1% (38)	Surplus	1.2% (34)	Green
Essex Pension Fund	7 (70)	Surplus	2.6% (14)	Surplus	1.9% (13)	Green

Pension fund	Maturity (rank)	Deficit period (rank)	Required return (rank)	Repayment shortfall	Return scope (rank)	Deficit recovery plan
Gloucestershire County Council Pension Fund	7.7 (38)	Surplus	2.3% (9)	Surplus	2.1% (7)	Green
Greater Gwent (Torfaen) Pension Fund	7.4 (56)	6 (73)	3.8% (75)	3.5%	0.8% (63)	Green
Greater Manchester Pension Fund	8.6 (15)	Surplus	2.6% (18)	Surplus	1.7% (16)	Green
Gwynedd Pension Fund	6.8 (81)	Surplus	2.9% (24)	Surplus	1.7% (17)	Green
Hampshire County Council Pension Fund	6.9 (72)	Surplus	3.9% (80)	Surplus	0.3% (80)	Green
Hertfordshire County Council Pension Fund	6.8 (77)	Surplus	2.6% (16)	Surplus	1.1% (44)	Green
Isle of Wight Council Pension Fund	8.7 (13)	Surplus	2.6% (15)	Surplus	1.9% (10)	Green
Islington Council Pension Fund	8.5 (17)	10 (80)	3.9% (79)	3.0%	0.7% (68)	Green
Kent County Council Pension Fund	6.9 (74)	Surplus	3.2% (41)	Surplus	1.3% (32)	Green
Lancashire County Pension Fund	7.5 (51)	Surplus	2.9% (23)	Surplus	1.5% (25)	Green
Leicestershire County Council Pension Fund	6.8 (78)	Surplus	2.9% (27)	Surplus	1.1% (41)	Green
Lincolnshire Pension Fund	6.9 (71)	Surplus	3% (33)	Surplus	1.6% (22)	Green
London Borough of Barking and Dagenham Pension Fund	7.5 (45)	2 (65)	3.5% (63)	5.1%	1% (48)	Amber
London Borough of Barnet Pension Fund	8 (28)	10 (79)	3.6% (66)	4.4%	0.2% (81)	Green
London Borough of Bexley Pension Fund	7.4 (55)	Surplus	2.6% (17)	Surplus	1.9% (14)	Green
London Borough of Brent Pension Fund	9.1 (7)	10 (81)	3% (32)	8.6%	1.6% (20)	Green
London Borough of Bromley Pension Fund	7.5 (46)	Surplus	1.9% (3)	Surplus	2.6% (4)	Green
London Borough of Camden Pension Fund	9.6 (5)	Surplus	2% (4)	Surplus	2.9% (3)	Green
London Borough of Croydon Pension Fund	6.9 (75)	4 (70)	3.5% (60)	4.8%	0.9% (56)	Green
London Borough of Ealing Pension Fund	7.7 (40)	Surplus	3.1% (37)	Surplus	1.1% (45)	Green
London Borough of Enfield Pension Fund	6.8 (79)	Surplus	3.4% (53)	Surplus	0.5% (73)	Green
London Borough of Hackney Pension Fund	8.2 (22)	Surplus	2.2% (8)	Surplus	2.1% (9)	Green
London Borough of Hammersmith and Fulham Pension Fund	10.6 (4)	Surplus	3.8% (74)	Surplus	0.4% (75)	Green

Pension fund	Maturity (rank)	Deficit period (rank)	Required return (rank)	Repayment shortfall	Return scope (rank)	Deficit recovery plan
London Borough of Haringey Pension Fund	9.1 (8)	Surplus	3.4% (50)	Surplus	0.8% (59)	Green
London Borough of Harrow Pension Fund	8.4 (20)	1 (64)	3.6% (64)	5.3%	1.1% (43)	Green
London Borough of Havering Pension Fund	8 (27)	12 (84)	3.7% (69)	4.0%	0.1% (83)	Green
London Borough of Hillingdon Pension Fund	8.1 (25)	8 (75)	3.8% (76)	3.4%	-0.1% (86)	Green
London Borough of Hounslow Pension Fund	7.6 (44)	Surplus	3.4% (57)	Surplus	1% (47)	Green
London Borough of Lambeth Pension Fund	10.7 (2)	Surplus	2.7% (20)	Surplus	1.6% (24)	Green
London Borough of Lewisham Pension Fund	9 (9)	Surplus	3.3% (44)	Surplus	0.5% (72)	Green
London Borough of Merton Pension Fund	7.5 (49)	Surplus	3.5% (61)	Surplus	1% (49)	Green
London Borough of Newham Pension Fund	7.5 (48)	2 (67)	4% (82)	2.3%	-0.3% (87)	Green
London Borough of Redbridge Pension Fund	7.7 (37)	5 (72)	3.9% (81)	2.4%	0.5% (74)	Amber
London Borough of Southwark Pension Fund	8.4 (21)	Surplus	2.8% (22)	Surplus	1.5% (28)	Green
London Borough of Tower Hamlets Pension Fund	8.8 (12)	Surplus	2.1% (6)	Surplus	2.2% (5)	Green
London Borough of Waltham Forest	8.1 (24)	11 (82)	3.6% (65)	4.2%	0.8% (65)	Green
Merseyside Pension Fund	9.2 (6)	Surplus	3.3% (47)	Surplus	1.2% (36)	Green
Norfolk Pension Fund	7.7 (39)	Surplus	3% (28)	Surplus	1.4% (31)	Green
North Yorkshire Pension Fund	6.5 (86)	Surplus	3% (31)	Surplus	0.9% (51)	Green
Northamptonshire Pension Fund	7.3 (63)	Surplus	3% (34)	Surplus	1.5% (27)	Green
Northumberland County Council Pension Fund	8.8 (11)	Surplus	3.2% (43)	Surplus	1.1% (42)	Green
Nottinghamshire County Council Pension Fund	6.7 (82)	2 (66)	3.6% (68)	4.5%	0.9% (52)	Green
Oxfordshire County Council Pension Fund	7.2 (64)	Surplus	3.7% (71)	Surplus	0.9% (54)	Green
Powys County Council Pension Fund	8.1 (23)	1 (63)	3.2% (42)	7.3%	0.8% (64)	Green

Pension fund	Maturity (rank)	Deficit period (rank)	Required return (rank)	Repayment shortfall	Return scope (rank)	Deficit recovery plan
Rhondda Cynon Taf County Borough Council Pension Fund	7.9 (32)	Surplus	3.5% (62)	Surplus	0.8% (62)	Green
Royal Borough of Greenwich Pension Fund	7 (69)	9 (77)	4.2% (85)	0.8%	0.2% (82)	Green
Royal Borough of Kensington and Chelsea Pension Fund	8.4 (18)	Surplus	2% (5)	Surplus	3.1% (2)	Green
Royal Borough of Kingston Upon Thames Pension Fund	7.5 (47)	Surplus	3.3% (49)	Surplus	1.1% (39)	Green
Royal county of Berkshire Pension Fund	6.6 (83)	25 (87)	4.6% (87)	-1.5%	0.1% (84)	Green
Shropshire County Pension Fund	7.9 (31)	Surplus	3.5% (59)	Surplus	0.6% (69)	Green
Somerset County Council Pension Fund	7.8 (36)	12 (83)	3.9% (78)	2.9%	1.6% (21)	Green
South Yorkshire Pension Fund	7.8 (34)	Surplus	3% (30)	Surplus	1.4% (30)	Green
Staffordshire Pension Fund	8.7 (14)	Surplus	2.5% (13)	Surplus	1.9% (11)	Green
Suffolk Pension Fund	7.4 (54)	Surplus	2.4% (11)	Surplus	1.9% (12)	Green
Surrey Pension Fund	7.2 (66)	Surplus	3.4% (52)	Surplus	1.1% (40)	Green
Sutton Pension Fund	6.4 (87)	2 (68)	3.3% (46)	5.8%	0.7% (66)	Green
Teesside Pension Fund	8.5 (16)	Surplus	3.8% (73)	Surplus	0.9% (57)	Green
Tyne and Wear Pension Fund	8.9 (10)	Surplus	3.5% (58)	Surplus	1.2% (37)	Green
Wandsworth Council Pension Fund	8.4 (19)	Surplus	2.1% (7)	Surplus	2.1% (8)	Green
Warwickshire Pension Fund	7.3 (60)	Surplus	3.3% (45)	Surplus	1.1% (46)	Green
West Midlands Pension Fund	7.9 (30)	Surplus	2.7% (21)	Surplus	1.5% (26)	Green
West Sussex County Council Pension Fund	6.8 (80)	Surplus	1.7% (2)	Surplus	2.2% (6)	Green
West Yorkshire Pension Fund	7.3 (57)	Surplus	3.8% (77)	Surplus	0.8% (60)	Green
Wiltshire Pension Fund	7.1 (67)	Surplus	2.6% (19)	Surplus	1.5% (29)	Green
Worcestershire County Council Pension Fund	7.7 (42)	Surplus	3% (36)	Surplus	1.8% (15)	Green
City of London Corporation Pension Fund	7.8 (35)	15 (86)	4.1% (84)	1.2%	0.3% (76)	Green

Pension fund	Maturity (rank)	Deficit period (rank)	Required return (rank)	Repayment shortfall	Return scope (rank)	Deficit recovery plan
London Pensions Fund Authority Pension Fund	10.6 (3)	Surplus	3.4% (56)	Surplus	0.9% (58)	Green
Environment Agency Active Fund	7.8 (33)	Surplus	3% (29)	Surplus	1.3% (33)	Green
Environment Agency Closed Fund	0 (N/A)	N/A	N/A	N/A	N/A	N/A

Notes:
1. The liability value and salary roll figures in the maturity indicator are as at 31 March 2019. The liability value was calculated on the standardised best estimate basis.

Appendix E: ALM

Why perform an Asset Liability Modelling (ALM) exercise?

E.1 An ALM exercise allows us to simultaneously project the assets and liabilities of the scheme under a range of simulations (known as stochastic economic scenarios), to investigate possible outcomes for key variables and metrics. Modelling the scheme in this way allows us to understand not only central, expected outcomes but also the wider range of possible outcomes and associated probabilities.

E.2 A common use of ALM studies is to help scheme managers and sponsors determine investment, contribution and funding policy by illustrating the impact of changing policy on key variables, such as the funding level (i.e. ratio of assets to liabilities), of the scheme under a range of scenarios.

E.3 For this piece of work, we modelled the whole Scheme rather than individual funds and our focus was on variations of the employer contribution rates over time as a broad measure of long term cost efficiency and sustainability relative to the funding available to local authorities. We are primarily interested in the extent to which contribution rates can vary from current levels as well as the projection of funding levels. Consequently, we have assumed that the current investment policy remains in place and is constant over the projection period.

E.4 Stochastic modelling techniques allow us to simulate one thousand economic scenarios – with different outturns and paths of key parameters and variables. The simulations are calibrated to reflect views on expected returns and relative behaviours between key variables, but importantly include an element of randomness in order to capture volatility observed in financial markets. By running the scenario generator many times, the spread of different possible outcomes can be illustrated, and the probability of certain outcomes can be estimated.

E.5 As with all models, the outcomes are a function of the assumptions adopted, and the outcomes are not intended to be predictors of the future but are illustrations of the range of possible outcomes. It is highly unlikely that the assumptions made will be borne out in practice and adjustments might be made to manage any pressures that arise.

E.6 Our study models change in economic outcomes only – we have not looked at any other possible changes such as demographic changes, including mortality, nor management changes such as changes to the investment approach or the impacts of climate change.

Outcomes of our modelling

E.7 The ALM exercise provides underlying projections, under thousands of scenarios, for a number of key variables and metrics of interest, including:

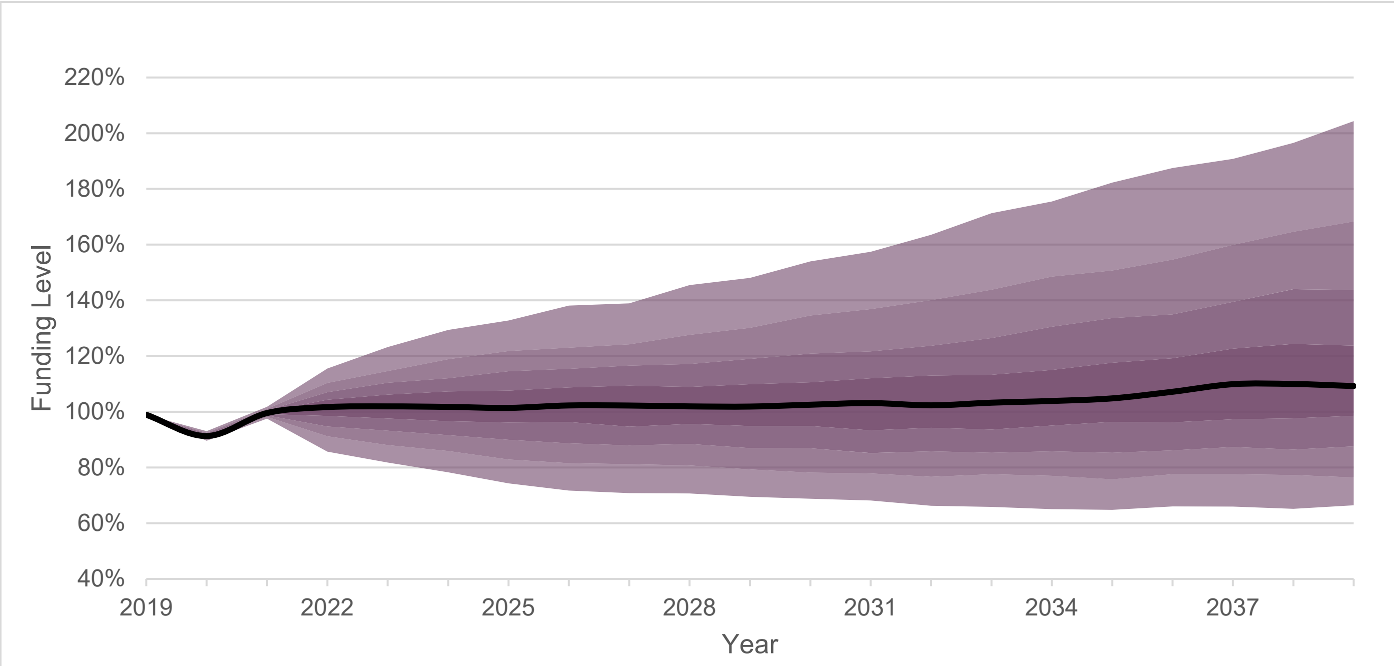
- The scheme’s assets
- The scheme’s liabilities
- The scheme’s funding level
- The contribution rates

E.8 The main report includes illustrations of funding level and contributions (relative to the salary and the level of funding available to local authorities) of the LGPS, as a whole. These illustrations assumed no immediate recovery of assets in 2020/21 as GAD currently hold no information on the extent to which funds have recovered. The illustrations considered the impact with and without a constraint on contribution rates.

E.9 Charts E.1 and E.2 below illustrates the possible impact on funding levels and contribution rates if an allowance was made for the expected recovery of assets for 2020/21 in the projections and assuming that the contributions are not restricted. In the absence of any data available to illustrate the effect of a possible immediate recovery in asset values we have reset the funding level to 100% as at 31 March 2021 in the following analysis.

E.10 In charts E.1 and E.2, the black line shows the median funding level and contribution rate. Each shade of purple represents the range of funding level or contribution for a decile (10%) of scenarios, with the subsequent lighter shade representing the next decile. We have not shown the most extreme deciles (0-10% and 90-100%)

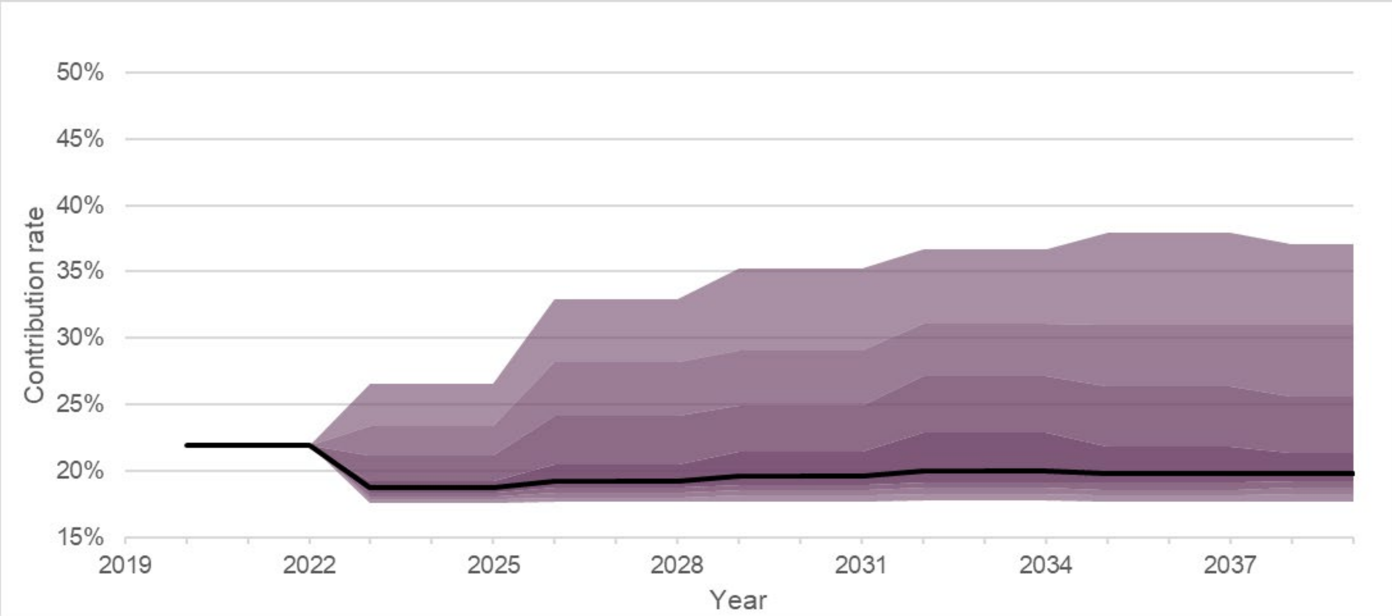
Chart E1: Illustration of funding levels with unconstrained contributions including allowance for expected 2020/21 recovery in assets



E.11 Chart E1 illustrates the initial drop in assets for the 2019/20 scheme year, due to COVID-19. For illustration purposes, we have shown the effect of an immediate recovery in the following year, by setting the scheme to be fully funded as at 31 March 2021 (a better position relative to that at the 2019 valuation).

E.12 The chart shows significant risk still remains as there is around 20% likelihood of the funding being 80% or lower by 2037. The upside is also illustrated in chart E.1, as the likelihood of improved funding is greater than that of chart 6.1, as there is over 30% chance that funding exceeds 140% funding.

Chart E2: Illustration of unconstrained employer contributions including allowance for expected 2020/21 recovery in assets



E.13 Based on the assumption that there is a rebound in asset values in 2020/21, chart E.2 illustrates that the median level of contributions may reduce at the 2022 valuation, due to the improvement in funding relative to the 2019 valuation.

E.14 Chart E.2 also illustrates that the risk to future contributions remain. After the assumed recovery there is around a 20% likelihood that contribution rates could exceed 30% by 2031. However, there is a limited likelihood of a significant reduction in contributions due to the assumption that no reduction is applied to primary contribution rates when the LGPS is in surplus.

Methodology

E.15 Our model projects the entire Scheme and assumes that the asset strategy and future valuation assumptions are an average of those used for the individual funds as at 31 March 2019. In practice, schemes are likely to have specific asset strategies and valuation assumptions, for example the discount rate will have regard to the expected return for each fund.

E.16 Projection of the contribution rates are determined based on the liability and asset values at each future triennial valuation and these are assumed to remain consistent for the following three years.

E.17 To project the development of the scheme we must make assumptions about the following:

> Expected new entrants into the scheme

> The way in which liabilities will evolve – for example, the rate at which current active liabilities “migrate” to being non-active (i.e. deferred/pensioner liabilities) over time or the extent to which liabilities are increased by CPI inflation and wage inflation at each point in time

> The way in which liabilities are assessed, and

> The way in which contributions are determined – both in respect of ongoing accrual and in respect of any surplus or deficit that arises.

The box below provides further details on the assumptions made in respect of these areas.

Key assumptions made in the ALM

For the purpose of assessing liabilities and determining contribution rates, assumptions are needed to carry out an actuarial valuation at each future point in time. In our modelling we have assumed that:

> The discount rate is set based on a constant margin above expected CPI. As such, the extent of the margin above real gilt yields included in the valuation may vary within the projections according to the projected economic conditions.

> The length of the recovery period is reset at each valuation i.e. deficit is spread over a 20 year period. However, when a surplus arises no reduction is applied to the primary rate (the cost of the benefits being accrued)

> New entrants' assumption – the scheme's active membership is assumed to remain stable over time

> The Scheme investment strategy is assumed to remain stable i.e. we assume the assets are rebalanced each year to the same allocation as that in the 2019 valuation.

> Demographic experience is as assumed in the underlying 2019 valuations

E.18 It should be noted that any change to manage down employer contribution rates in the short term do not alter the long term cost of the scheme (which depends on the level of scheme benefits and scheme experience, including asset returns) and more generally might have some other less desirable outcomes, for example:

> increasing the length of recovery periods transfers costs onto future generations

> choosing a more return seeking investment strategy would be expected to increase volatility and risk

Assumptions

E.19 An ALM produces a broader amount of information than a traditional deterministic actuarial valuation. Consequently, we need to make more detailed assumptions to simplify the calculations involved in the projections and make it practical to analyse all the key outcomes we are interested in.

E.20 To project the development of the scheme we must make assumptions about the key economic variable and financial assumptions for example price inflation, salary growth and returns on assets held. These are determined from the economic scenario generator (ESG).

E.21 The ESG is calibrated to current conditions and expectations for the future and specifies how key economic variables may vary (stochastically, according to probability distributions) in future. The ESG was provided by Moody's, with a calibration date of 31 March 2020, and reflected the market expectations at that time.

E.22 GAD made subsequent amendments to the ESG:

> As the calibration was as at 31 March 2020, asset returns for the 2019/20 scheme year were introduced to allow for the known financial outcomes and ensuring that the asset value as at 31 March 2020 are consistent with publicly available SF3 data

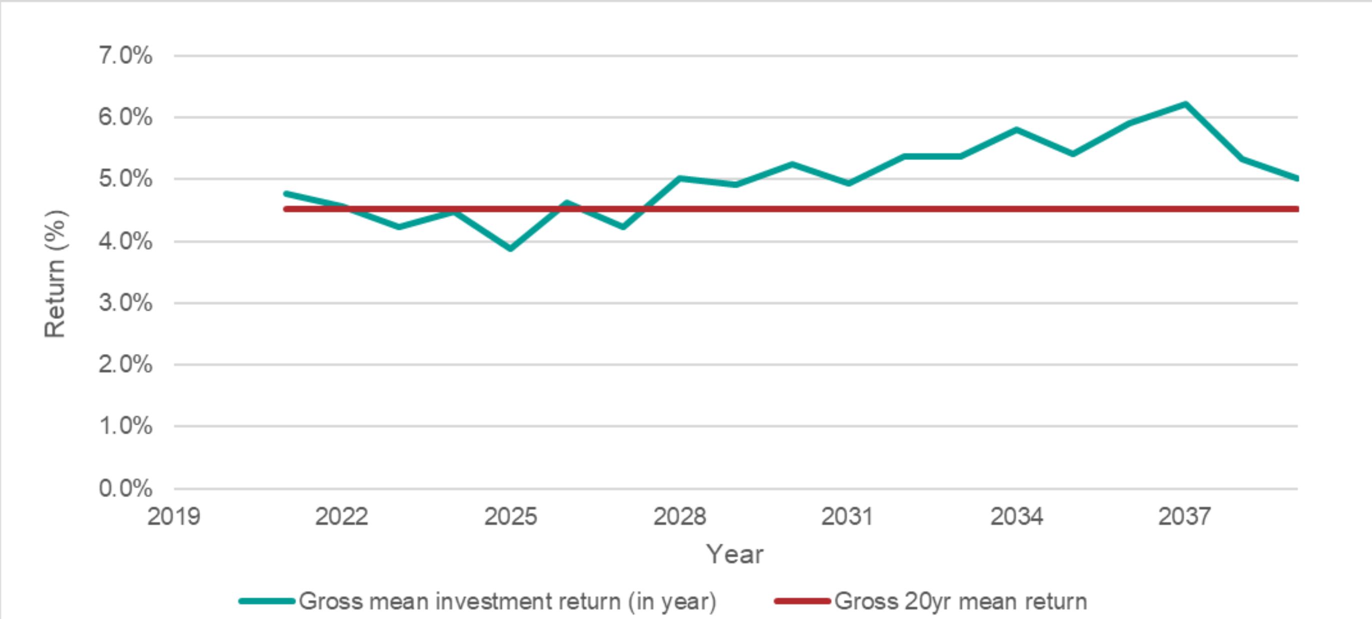
> CPI simulations are derived based on projected RPI simulations less a constant margin. The margin, set at 1.15%, is based on GAD's house view for the current difference between RPI and CPI and is constant throughout the projection period. In practice the difference between RPI and CPI is expected to reduce from 2030 when RPI reforms, however allowing for this would result in a disjoint in CPI projections because market expectations for RPI (which drive simulations) do not show such a disjoint.

> Assumed asset returns were enhanced to align with GAD's long-term views

E.23 Charts E.3 and E.4 illustrate the investment returns used in the ALM projections. The green line in Chart E.3 represents the mean return in each simulation year, and the expectation is that returns improve on average with time.

E.24 The red line in chart E.3. illustrates the annualised mean return over the projection period of the ALM projection, which is 4.5%. The expected return in the ALM is in line with GAD's expectation based on the economic environment as at 31 March 2020.

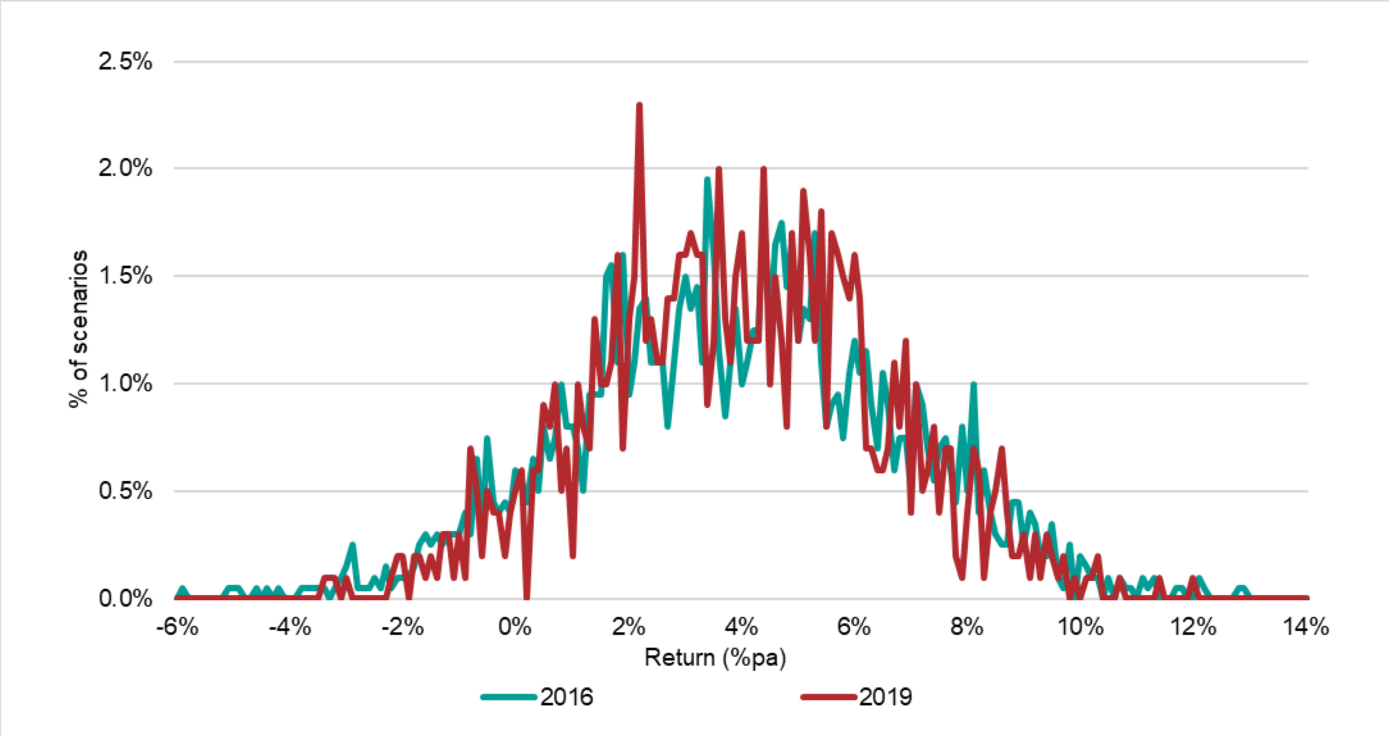
Chart E3: Mean investment return for future years



E.25 Chart E.4 is the distribution of the annualised portfolio returns over the twenty-year period and compares the projection to that of the 2016 ALM exercise. The distributions of the returns are similar, which is expected due to the same investment strategy being adopted at the 2016 and 2019 valuation and similar return prospects.

E.26 Chart E.4 demonstrates the volatility in the LGPS, which was also one of the key risks identified in the investment returns section within the main report. The chart below illustrates that whilst returns are mainly clustered between -2% and 10%, with the mean round 4%, significant risks of low returns over the 20-year period remain but so does the upside potential.

Chart E4: Distribution of annualised nominal investment returns



Appendix F: Data Provided

F.1 At the request of DLUHC, GAD collected data from each fund's 2019 valuation report via the fund actuaries. These actuarial funding valuations were conducted by four firms of actuarial advisors:

- Aon
- Barnett Waddingham
- Hymans Robertson
- Mercer

F.2 Data was received from the relevant firm of actuarial advisors for all 88 pension funds and included additional information provided to the fund actuaries by administrators in respect of their fund's employers.

F.3 Limited checks, consisting of spot checks to make sure that data entries appear sensible, have been performed by GAD and the data received appears to be of sufficient quality for the purpose of analysing the 2019 valuation results. These checks do not represent a full, independent audit of the data supplied. The analysis contained in this report relies on the general completeness and accuracy of the information supplied by the administering authority or their firms of actuarial advisors.

F.4 In addition, data has been collated from the 'Local government pension scheme funds local authority data', which is published annually by DLUHC at Local government pension scheme funds for England and Wales: 2016 to 2017 - GOV.UK (www.gov.uk). This published data may be referred to elsewhere as SF3 statistics.

F.5 Unless otherwise stated the data detailed above has been used to inform the analysis contained in the LGPS England and Wales section 13 2019 Report.

F.6 The information provided to GAD is, in many instances, more detailed than that provided in the actuarial valuation reports.

F.7 There was some inconsistency in the information provided to GAD. For example, membership details were not always split by gender as requested. However, this did not have a material impact on the analysis that GAD was able to complete (we assumed the average male female breakdown for these funds.

Data specification

(1) MEMBERSHIP DATA

Data split by gender.

(a) Active members: number of members, unweighted average age (to 2dp), total rate of annual actual pensionable pay at 31 March 2019 and 31 March 2016 (2014 pay definition)

(b) Deferred members: number of members, unweighted average age (to 2dp), total annual preserved pension revalued to 31 March 2019 for both 31 March 2016 and 31 March 2016. Note this should exclude undecided members.

(c) Pensioners (former members): number of members, unweighted average age (to 2dp), total annual pensions in payment at 31 March 2019 and 31 March 2016.

(d) Pensioners (dependants including partners and children): number of members, average age (weighted as appropriate), total annual pensions in payment at 31 March 2019 and 31 March 2016.

(2) FINANCIAL ASSUMPTIONS

Assumptions used to value the liabilities of the most secure employers (e.g. local authorities)

(a) Specify what proportion of the liabilities is calculated using the assumptions below

(b) Provide assumptions used for past service liabilities, these have been given for both as at 31 March 2019 and 31 March 2016.

i. Nominal discount rate (pre & post retirement separately if applicable)

ii. RPI inflation

iii. CPI inflation rate

iv. Earnings inflation

(c) Provide assumptions used for future contributions, these have been given for both as at 31 March 2019 and 31 March 2016.

i. Nominal discount rate (pre & post retirement separately if applicable)

ii. RPI inflation

iii. CPI inflation rate

iv. Earnings inflation

(d) Short term assumptions used in the valuation (if applicable)

i. CPI

ii. Salary Increases

iii. Discount Rate

(e) Deficit Recovery Period (years)

(3) DEMOGRAPHIC ASSUMPTIONS

Rates to be provided at sample ages split by gender

Each could be split further in Group 1, Group 2, Group 3, Group 4, and Group 5

(a) Assumed life expectancy for members retiring in normal health

i. Pensioner members aged 65 (for members retiring on normal health) (to 2dp) (with mortality improvements)

ii. Pensioner members aged 65 (for members retiring on normal health) (to 2dp) (without mortality improvements)

iii. Active / deferred members at age 65 if they are currently aged 45 (to 2dp) (with mortality improvements)

iv. Active / deferred members at age 65 if they are currently aged 45 (to 2dp) (without mortality improvements)

(b) Commutation

i. Pre 2008 pension Commutation Assumptions (as % of maximum lump sum allowed under HMRC rules). For example, maximum proportion of pension that may be commuted under the 2008 scheme is 35.71%. This will give a lump sum equal to the permitted maximum and thus if the member is assumed to commute this amount of pension, the entry in the table above is 100%. For pre2008 service, members already receive a lump sum = 3/80ths x pre 2008 pensionable service x final pensionable salary. Please specify the pre 2008 assumption as the proportion of the permitted maximum that is expected to be commuted over and above the 3/80ths lump sum.

ii. Post 2008 pension Commutation Assumptions (as % of maximum lump sum allowed under HMRC rules).

(4) ASSETS These are split to provide information for 31 March 2019 and 31 March 2016

(a) Market value of assets

(b) Value of assets used in the valuation

(c) Do you use a smoothed asset value in the valuation? If yes please attach an explanation

(d) Actual Asset Distribution split into the following:

i. Proportion of assets held in Bonds

a) Proportion of bonds which are fixed interest government bonds

b) Proportion of bonds which are fixed interest non-government bonds

c) Proportion of bonds which are inflation linked bonds

ii. Proportion of assets held in Equities

a) Proportion of equities which are UK equities

b) Proportion of equities which are overseas equities

c) Proportion of equities which are unquoted or private equities

iii. Proportion of assets held in Property

iv. Proportion of assets held in Insurance Policies

v. Proportion of assets held in Fully insured annuities

vi. Proportion of assets held in Deferred or immediate fully insured annuities

vii. Proportion of assets held in Hedge funds

viii. Proportion of assets held in Cash and net current assets

ix. Proportion of assets held in Commodities,

x. Proportion of assets held in ABC arrangements

xi. Proportion of assets held in Infrastructure – debt type

xii. Proportion of assets held in Infrastructure* – equity type

xiii. Proportion of assets held in “Other” investments – defensive*

xiv. Proportion of assets held in “Other” investments – return seeking

(e) Weighted best estimate return

(5) LIABILITIES AND FUTURE CONTRIBUTION RATE

These are split to provide information for 31 March 2019 and 31 March 2016

Local assumptions

(a) Past service liability – split between Actives, Deferred, Pensioners and Total

(b) Funding level

(c) Surplus / deficit

(d) Deficit recovery period

(e) Assumed member contribution yield k) Expenses, split by administration and investment (if not included implicitly in discount rate) l) Pensionable Pay definition (2008 or 2014 scheme definition) m)Is a smoothed liability value used? If Yes, an explanation is included ii) SAB standardised basis (only relevant for England and Wales) a) Past service liability – split between Actives, Deferred, Pensioners and Total b) Funding level c) Surplus / deficit d) Deficit recovery period Future contribution rates h) Standard contribution rate i) Contribution rate in respect of surplus or deficit j) Assumed member contribution yield

SAB standardised basis

(a) Past service liability – split between Actives, Deferred, Pensioners and Total

(b) Funding level

(c) Surplus / deficit

(d) SAB future service costs (excluding expenses) %

(6) Deficit recovery plan reconciliation

(a) Deficit contribution expected to be paid over each 3 yearly period from 2016 to 2043 as at March 2019 and March 2016

(b) Present value of deficit contribution expected to be paid over each 3 yearly period from 2016 to 2043 as at March 2019 and March 2016

(7) Post 2014 scheme

(a) Assumption for members in 50/50 scheme (if a proportion of members include details in 7b below)

(b) Proportion of members assumed to be in 50/50 scheme

(8) Documentation required

(a) Valuation Report @ 31 March 2019

(b) Relevant related reports

(c) Compliance Extract

(d) Statement of Investment Strategy

(e) Funding Strategy Statement

(f) Other

(9) McCloud approach

Please note the planned approach to risks arising from the McCloud judgement as discussed in the FSS

ALTERNATIVE FINANCIAL ASSUMPTIONS

Specify where a significant proportion of employer liabilities have been valued using alternative assumptions – provided as above in section 2

Appendix G: Assumptions

G.1 Each section of analysis contained in the main report is based on one of three sets of assumptions:

> The local fund assumptions, as used in the fund's 2019 actuarial valuation

> The SAB standardised set of assumptions, or SAB standard basis

> A best estimate set of assumptions

G.2 Details of local fund assumptions can be found in each fund's actuarial valuation report as at 31 March 2019. Details of the SAB standard basis and the standardised best estimate basis can be found in the table below.

Table G1: SAB standard basis and best estimate basis

Assumption	SAB standard basis	Best Estimate basis
Methodology	Projected Unit Methodology with 1 year control period	Projected Unit Methodology with 1 year control period
Rate of pension increases	2% per annum	2% per annum
Public sector earnings growth	3.5% per annum	3.5% per annum
Discount rate	4.45% per annum	4.3% per annum
Changes to State Pension Age (SPA)	As legislated	As legislated
Pensioner Baseline mortality	Set locally based on Fund experience	As set out in GAD's 2016 valuation
Mortality improvements	Core CMI_2018 with long term reduction in mortality rates of 1.5% per annum	Improvements in line with those underlying the ONS 2018-based principal population projections for the UK
Age retirement	Set locally based on Fund experience	As set out in GAD's 2016 valuation
Ill health retirement rates	Set locally based on Fund experience	As set out in GAD's 2016 valuation
Withdrawal rates	Set locally based on Fund experience	As set out in GAD's 2016 valuation
Death before retirement rates	Set locally based on Fund experience	As set out in GAD's 2016 valuation
Promotional salary scales	None	As set out in GAD's 2016 valuation
Commutation	We have used the SAB future service cost assumption of 65% of the maximum allowable amount	As set out in GAD's 2016 valuation
Family statistics	Set locally based on Fund experience	Set locally based on Fund experience

G.3 The financial assumptions for the best estimate basis are based on GAD's neutral assumptions for long term inflation measures and asset returns, and the split of LGPS assets held as at 31 March 2019. These neutral assumptions are not deliberately optimistic nor pessimistic and do not incorporate adjustments to reflect any desired outcome. We believe there is around a 50% chance of outcomes being better and a 50% chance of outcomes being worse than these assumptions imply.

G.4 Future asset returns are uncertain and there is a wide range of reasonable views on what future asset returns will be and therefore the best estimate discount rate should be. We have presented GAD's house view above, but there are other reasonable best estimate bases which may give materially different results.

Appendix H: Section 13 of the Public Service Pensions Act 2013

13 Employer contributions in funded schemes

(1) This section, which can be found at [Public Service Pensions Act 2013 (legislation.gov.uk)](),applies in relation to a scheme under section 1 which is a defined benefits scheme with a pension fund.

(2) Scheme regulations must provide for the rate of employer contributions to be set at an appropriate level to ensure

(a) the solvency of the pension fund, and

(b) the long term cost efficiency of the scheme, so far as relating to the pension fund.

(3) For that purpose, scheme regulations must require actuarial valuations of the pension fund.

(4) Where an actuarial valuation under subsection (3) has taken place, a person appointed by the responsible authority is to report on whether the following aims are achieved

(a) the valuation is in accordance with the scheme regulations

(b) the valuation has been carried out in a way which is not inconsistent with other valuations under subsection (3)

(c) the rate of employer contributions is set as specified in subsection (2).

(5) A report under subsection (4) must be published and a copy must be sent to the scheme manager and (if different) the responsible authority.

(6) If a report under subsection (4) states that, in the view of the person making the report, any of the aims in that subsection has not been achieved

(a) the report may recommend remedial steps

(b) the scheme manager must

i. take such remedial steps as the scheme manager considers appropriate, and

ii. publish details of those steps and the reasons for taking them

(c) the responsible authority may

i. require the scheme manager to report on progress in taking remedial steps

ii. direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.

(7) The person appointed under subsection (4) must, in the view of the responsible authority, be appropriately qualified.

Appendix I: Extracts from other relevant regulations

Regulations 58 and 62 of 'The Local Government Pension Scheme Regulations 201320'

Funding strategy statement (Regulation 58)

(1) An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.

(2) The statement must be published no later than 31st March 2015.

(3) The authority must keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy set out in the statement, and if revisions are made, publish the statement as revised.

(4) In preparing, maintaining and reviewing the statement, the administering authority must have regard to

(a) the guidance set out in the document published in October 2012 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called "Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme 2012" and

(b) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Actuarial valuations of pension funds (Regulation 62)

(1) An administering authority must obtain

(a) an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards

(b) a report by an actuary in respect of the valuation, and

(c) a rates and adjustments certificate prepared by an actuary.

(2) Each of those documents must be obtained before the first anniversary of the date ("the valuation date") as at which the valuation is made or such later date as the Secretary of State may agree.

(3) A report under paragraph (1)(b) must contain a statement of the demographic assumptions used in making the valuation and the statement must show how the assumptions relate to the events which have actually occurred in relation to members of the Scheme since the last valuation.

(4) A rates and adjustments certificate is a certificate specifying

(a) the primary rate of the employer's contribution and

(b) the secondary rate of the employer's contribution, for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.

(5) The primary rate of an employer's contribution is the amount in respect of the cost of future accruals which, in the actuary's opinion, should be paid to a fund by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who are active members.

(6) The actuary must have regard to-

(a) the existing and prospective liabilities arising from circumstances common to all those bodies

(b) the desirability of maintaining as nearly constant a common rate as possible

(c) the current version of the administering authority's funding strategy mentioned in regulation 58 (funding strategy statements) and

(d) the requirement to secure the solvency of the pension fund and the long term cost efficiency of the Scheme, so far as relating to the pension fund.

(7) The secondary rate of an employer's contributions is any percentage or amount by which, in the actuary's opinion, contributions at the primary rate should, in the case of a Scheme employer, be increased or reduced by reason of any circumstances peculiar to that employer.

(8) A rates and adjustments certificate must contain a statement of the assumptions on which the certificate is given as respects

(a) the number of members who will become entitled to payment of pensions under the provisions of the Scheme and

(b) the amount of the liabilities arising in respect of such members

during the period covered by the certificate.

(9) The administering authority must provide the actuary preparing a valuation or a rates and adjustments certificate with the consolidated revenue account of the fund and such other information as the actuary requests.

Item No 11	Date: 19 January 2022	Meeting Name: Local Pension Board
Report title:		Local Pension Board Work Plan 2022-23
From:		Senior Finance Manager - Treasury and Pensions

RECOMMENDATIONS

- The Local Pension Board members are asked to review the suggested agenda items for 2022-23.

BACKGROUND INFORMATION

1. In order to consider the coming year's rolling work programme, it is useful to consider the Local Pension Board's Terms of Reference which can be found at:

   https://www.southwark.gov.uk/council-and-democracy/pensions/local-pension-board?&article

2. The core functions of the LPB, extracted from the Terms of Reference, are set out below:

   - *The first core function of the Board is to assist the Administering Authority in securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider.*

   - *The second core function of the Board is to ensure the effective and efficient governance and administration of the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider.*

Work Programme for 2022-23

3. The work programme for 2022-23 is set out below:

Date	Agenda Items
April 2022	• Risk Register • Training: Investment Strategy: types of investments held and associated risks
July 2022	• LPB Annual Report • Training: Pensions Administration Structures: in house and outsourcing
October 2022	• Statement of Accounts • Audit Report 2021-22 • Option to re-appoint LPB Chair • Training: Actuarial valuation: process; development of funding strategy and inter-valuation monitoring
January 2023	• Training plan 2023-24 • Results of 2022 triennial actuarial valuation • Training: LGPS Discretions
Standing Items	• Pensions Services Update • Investment Update • PAP Agenda Items • COP14 Review – progress updates
Items with no defined date	• Scheme Advisory Board Good Governance Project • Report on Pensions Dashboard

4. Local Pension Board members are asked to contribute other areas of work that might be included.

<u>Community, Equalities (including socio-economic) and Health Impacts</u>

5. Community Impact Statement

No immediate implications arising.

6. Equalities (including socio-economic) Impact Statement

No immediate implications arising

7. Health Impact Statement

No immediate implications arising

8. Climate Change Implications

No immediate implications arising

9. **Resource Implications**

No immediate implications arising

10. Legal Implications

No immediate implications arising

11. Financial Implications

No immediate implications arising

12. **Consultation**

No immediate implications arising

AUDIT TRAIL

Lead Officer	Duncan Whitfield	
Report Author	Caroline Watson	
Version	Final version	
Dated	12 January 2022	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Democracy	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
List other officers here		
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		N/A

Item No. 12	Classification: Open	Date: 19 January 2022	Meeting Name: Local Pension Board
Report title:		Local Pension Board Training Plan	
From:		Senior Finance Manager – Treasury and Pensions	

RECOMMENDATIONS

Local Pension Board members are asked to:

- Agree the LPB training plan set out as Appendix A of this report.
- Note the training undertaken by LPB members to date, assessed against the CIPFA knowledge and skills framework as Appendix B.

BACKGROUND INFORMATION

1. The CIPFA Knowledge and Skills framework sets out the areas of knowledge required by Local Pension Board members to properly exercise the functions of a member of the pension board as required by the Public Service Pensions Act 2013.

APPROACH TO TRAINING

2. LPB members have completed training needs self assessments which cover all aspects of knowledge required. The results of the assessments have informed the training plan for LPB for 2022-23. The detailed training plan is included as appendix A of this report.

3. Training sessions will take place prior to quarterly meetings.

4. LPB members are asked to advise of any training gaps going forward in order that suitable training can be arranged to address them.

5. Details of the training undertaken by LPB members to date are included for reference as Appendix B of this report.

INDIVIDUAL LEARNING

6. The Pensions Regulator Public Service Toolkit can be accessed from the following link:

   https://education.thepensionsregulator.gov.uk/my/

7. The CIPFA Guide for Local Pension Boards has been sent to Local Pension Board members.

Community, Equalities (including socio-economic) and Health Impacts

8. **Community Impact Statement**

   No immediate implications arising

9. **Equalities (including socio-economic) Impact Statement**

   No immediate implications arising

10. **Health Impact Statement**

    No immediate implications arising

11. **Climate Change Implications**

    No immediate implications arising

12. **Resource Implications**

    No immediate implications arising

13. **Legal Implications**

    No immediate implications arising

14. **Financial Implications**

    No immediate implications arising

15. **Consultation**

    No immediate implications arising

AUDIT TRAIL

Lead Officer	Duncan Whitfield		
Report Author	Caroline Watson		
Version	Final		
Dated	12 January 2022		
Key Decision?	N/A		
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title		**Comments Sought**	**Comments Included**
Director of Law and Democracy		N/A	N/A
Strategic Director of Finance and Governance		N/A	N/A
List other officers here			
Cabinet Member		N/A	N/A
Date final report sent to Constitutional Team			

Appendix A – TRAINING PLAN

Date	Description	Provider
Apr-22	Investment Strategy: types of investments held and associated risks	AON
Jul-22	Pensions Administration Structures: in house and outsourcing	BB
Oct-22	Actuarial valuation: process; development of funding strategy and inter-valuation monitoring	AON
Jan-23	LGPS Discretions	BB
Apr-23	Scheme employers: types, risks and monitoring	CW
TBC	SAB Good Governance Project	TBC
TBC	Support services: roles of custodian; actuary; and investment adviser and the monitoring regime in place	CW

Appendix B

LOCAL PENSION BOARD TRAINING UNDERTAKEN TO DATE

The following table assesses training undertaken by LPB members to date, against the CIPFA knowledge and skills framework.

Training Category	Training Undertaken
1 – Pensions legislation	LPB Introduction session - June 2015 Recent LGPS developments - July 2018 General Data Protection Regulations - April 2018 Pensions Benefits - January 2017 LGPS Benefits - January 2016
2 – Pensions governance	LPB Introduction session - June 2015 Recent LGPS developments - July 2018 SAB Good Governance Project – July 2021
3 – Pensions administration	LPB Introduction session - June 2015 Taxation & the LGPS - October 2018 Admitted & Scheduled Bodies - September 2017 Complaints Management – April 2021 Additional Voluntary Contributions – October 2021 Administration Strategy – Administering Authority and Employer Responsibilities – January 2022
4 – Investment decision making, performance and risk management	LPB Introduction session - June 2015 Asset Classes (Mercer) - October 2015 Diversified Growth & Absolute Return Bonds - April 2016
5 – Actuarial methods, standards and practices	LPB Introduction session - June 2015 Joint actuarial training with PAP - June 2016

Item No. 13	Classification: Open	Date: 19 January 2022	Meeting Name: Local Pension Board
Report title:		Pensions Advisory Panel Meeting Papers – 22 December 2021	
From:		Senior Finance Manager, Treasury & Pensions	

Recommendations

The LPB is asked to:

- Note the key items covered at the 22 December 2021 Pensions Advisory Panel meeting.

Summary

1. **Carbon Footprint Update – Agenda Item 6**

    - Reduction in the Fund's carbon footprint between September 2017 and September 2021 was 49.8%.

2. **Investment Adviser Performance Updates – Agenda Item 7**

    - The Fund value increased by £35.5m during the quarter to September 2021.
    - Fund return quarter to September 2021: 1.7% (benchmark 1.6%)
    - Fund return year to September 2021: 15.8% (benchmark 15.1%)
    - The Fund transitioned all holdings (£107.8m) from the BlackRock emerging markets index funds into the Comgest Growth Emerging Markets Plus Fund during September 2021.
    - Funding level remained at 114% over the quarter.

3. **Launch of Net Zero Carbon Investment Strategy – Agenda Item 8**

    - Postponed to a special PAP meeting to be held on 26 January 2022. Recommendation on the adoption of the strategy could not be made as the meeting was not quorate.

4. **Environmental, Social and Governance (ESG) Priority Allocation – Update on Implementation of New Investments - Agenda Item 9**

   - Following the decision in September 2021 to make commitments to four new investments, the following progress was made in implementing this during the quarter to December 2021:

   ESG Priority Allocation

   Blackstone Capital Holdings GP Stakes Fund II

   - Commitment of £80m made for final close of fund on 1 November 2021.
   - Capital call expected in January 2022.

   Darwin Bereavement Services Fund

   - £20m commitment fully drawn down on 1 November 2021

   BTG Pactual Open Ended Core US Timberland Fund

   - £30m commitment fully drawn down on 31 December 2021.

   Sustainable Infrastructure Allocation

   Temporis Impact Fund V

   - £25m commitment to Fund
   - £21.5m drawn down in early December 2021

5. **Pension Fund Statement of Accounts 2020-21 – Agenda Item 10**

   - Covered elsewhere on this agenda.

Community, Equalities (including socio-economic) and Health Impacts

6. **Community Impact Statement**

   No immediate implications arising.

7. **Equalities (including socio-economic) Impact Statement**

   No immediate implications arising

8. **Health Impact Statement**

No immediate implications arising

9. **Climate Change Implications**

No immediate implications arising

10. **Resource Implications**

No immediate implications arising

11. **Legal Implications**

No immediate implications arising

12. **Financial Implications**

No immediate implications arising

13. **Consultation**

No immediate implications arising

AUDIT TRAIL

Lead Officer	Duncan Whitfield	
Report Author	Caroline Watson	
Version	Final version	
Dated	12 January 2022	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	Comments Included
Director of Law and Democracy	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
List other officers here		
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		N/A

Open Agenda

Pensions Advisory Panel

Wednesday 22 December 2021
1.00 pm
Online/Virtual via Microsoft Teams

Membership

Councillor Rebecca Lury (Chair)
Councillor Jon Hartley
Councillor Eliza Mann

Officers
Duncan Whitfield
Caroline Watson
Barry Berkengoff

Staff Representatives
Chris Cooper
Julie Timbrell
Derrick Bennett

Advisors
David Cullinan
Colin Cartwright

Contact
Andrew Weir by email: andrew.weir@southwark.gov.uk

Members of the committee are summoned to attend this meeting
Eleanor Kelly
Chief Executive
Date: 16 December 2021

PRINTED ON RECYCLED PAPER

Southwark Council
southwark.gov.uk

Pensions Advisory Panel

Wednesday 22 December 2021
1.00 pm
Online/Virtual via Microsoft Teams

Order of Business

Item No.	Title	Page No.
1.	**APOLOGIES** To receive any apologies for absence.	
2.	**CONFIRMATION OF VOTING MEMBERS** Voting members of the committee to be confirmed at this point in the meeting.	
3.	**NOTIFICATION OF ANY ITEMS OF BUSINESS WHICH THE CHAIR DEEMS URGENT**	
4.	**DISCLOSURE OF INTERESTS AND DISPENSATIONS** Members of the committee to declare any interests and dispensation in respect of any item of business to be considered at this meeting.	
5.	**MINUTES** To agree as a correct record, the open minutes of the meeting held on 29 September 2021.	1 - 7
6.	**CARBON FOOTPRINT UPDATE**	8 - 13
7.	**QUARTERLY INVESTMENT UPDATES**	14 - 27

Date: 16 December 2021

Agenda Item 5

Pensions Advisory Panel

MINUTES of the OPEN section of the Pensions Advisory Panel held on Wednesday 29 September 2021 at 3.00 pm at Meeting Room 225 - 160 Tooley Street, London SE1 2QH

PRESENT:

Councillor Rebecca Lury (Chair)
Councillor Eliza Mann
Duncan Whitfield
Caroline Watson
Barry Berkengoff
Tim Jones
Chris Cooper
Julie Timbrell
Derrick Bennett
Colin Cartwright
David Cullinan
Mike Ellsmore
James Gilliland
Jack Emery
Andrew Weir

1. APOLOGIES

There were no apologies for absence.

2. CONFIRMATION OF VOTING MEMBERS

Councillor Rebecca Lury, Caroline Watson and Barry Berkengoff were confirmed as voting members at the beginning of the meeting. Councillor Eliza Mann was confirmed as a voting member also, on her arrival at 3.20pm.

3. NOTIFICATION OF ANY ITEMS OF BUSINESS WHICH THE CHAIR DEEMS URGENT

There were none.

4. DISCLOSURE OF INTERESTS AND DISPENSATIONS

There were none.

5. MINUTES

RESOLVED:

That the minutes of the meeting held on 23 June 2021 be agreed as a correct record.

At this point the chair agreed to vary the order of business to hear items 7 and 13 first.

6. NEWTON PRESENTATION

The pensions advisory panel received a presentation from Newton.

It was noted that Newton had outperformed the market in seven of the last ten years but had not met their long term performance target. Newton advised that they took a thematic approach to investing and took a long term view to add value for their clients.

Duncan Whitfield advised that Newton was an active manager with high targets. He thanked Newton for responding to the pension fund's low carbon objectives.

David Cullinan asked Newton to provide data on the mandate's performance against the markets. It was confirmed that this would be provided by email.

RESOLVED:

That the presentation from Newton be noted.

7. ASSET ALLOCATION

James Gilliland, Divisional Accountant, presented the report on the asset allocation of the Fund.

It was noted that the value of the pension fund had increased by £89 million since the previous quarter.

RESOLVED:

That the Fund's asset allocation at 30 June 2021 be noted.

8. CARBON FOOTPRINT UPDATE

Jack Emery, CIPFA Trainee, presented the report on the carbon footprint update.

It was noted that the fund has reduced its weighted carbon exposure by 44% since September 2017. This is predominantly driven by the movement of the holdings in passive developed market equities to low carbon funds.

The panel noted the infographic that had been produced in order to demonstrate the changes in the composition of the fund in terms of carbon emissions against the reduction of the carbon footprint over time. The graph was intended for use as a way of easily displaying the fund's progress towards net zero and would be easy to update over time.

The chair added that the availability of suitable products on the market were difficult to find as the fund was ahead of the market.

David Cullinan commented that this was a very good piece of work. He noted that the fund needed to invest in products that matched the direction of the fund's liabilities.

RESOLVED:

That the fund's carbon footprint at 30 June 2021 be noted.

9. DRAFT UPDATED INVESTMENT STRATEGY

Caroline Watson presented the report.

It was noted that there was a series of short, medium and long term targets in order to reach net zero by 2030.

Julie Timbrell requested that members of the fund were consulted on the strategy. Duncan Whitfield advised that it would be published and members would be consulted. She also asked if there would be another scheme member survey. It was agreed that this would be added to the revised investment strategy.

Mike Ellsmore asked whether we would be consulting with scheme employers. It was confirmed that the Investment Strategy Statement would be sent to all scheme employers as part of a formal consultation.

RESOLVED:

1. That the updated Investment Strategy Statement was considered and noted.

2. That the draft updated investment strategy was considered and noted.

10. ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) PRIORITY ALLOCATION

Caroline Watson presented the report. She advised that a range of available illiquid investment funds were considered for the ESG priority allocation. It is recognised that investment opportunities in this area vary in strategy, fund structure and the degree of ESG integration and impact.

Attendees at the assessments were:

- PAP Voting Members – Cllr Rebecca Lury, Cllr Eliza Mann, Caroline Watson, and Barry Berkengoff
- Officers - Duncan Whitfield, Tim Jones
- Investment Advisors – Colin Cartwright, Jonathan Taylor, David Cullinan.

She advised that voting members of the pensions advisory panel were being asked to agree the recommended selection.

Duncan Whitfield advised that the recommendation was a recommendation from the panel to him, in his role as strategic director of finance and governance.

RESOLVED:

1. That it be noted that at the manager assessment sessions held on 28 July and 22 September 2021, Blackstone Capital Holdings GP Stakes Fund II; BTG Pactual Open Ended Core US Timberland Fund; and Darwin Bereavement Services Fund were considered the most suitable investment opportunities for the new ESG priority allocation.

2. That it be noted that the Temporis Impact Fund V was also identified as an investment opportunity to continue the pipeline in the 5% allocation to the sustainable infrastructure portion of the fund’s agreed strategic asset allocation.

3. That it be recommended that the fund makes commitments within the ranges set out below to each of the above investments, subject to legal due diligence:

i. Blackstone Capital Holdings GP Stakes Fund II (£50-£60m)
ii. BTG Pactual Open Ended Core US Timberland Fund (£25-30m)
iii. Darwin Bereavement Services Fund (£20m)
iv. Temporis Impact Fund V (£20-40m)

11. QUARTERLY INVESTMENT UPDATES

David Cullinan updated the panel. He advised that the Fund had performed well in the June quarter. It was noted that the Fund was in the top quartile of local authority pension funds.

He advised that it had been a challenging six months but the fund was moving in the right direction and that the investment strategy was good.

Colin Cartwright from Aon addressed the panel. He advised that the markets had performed well but warned that inflation could lead to more volatility. He added that overall the fund was well positioned.

RESOLVED:

That the quarterly investment updates be noted.

12. QUARTERLY ACTUARIAL FUNDING UPDATE

Caroline Watson presented the report. She advised that the funding level at 30 June 2021 was 114% (111% at 31 March 2021). The surplus had increased by £68 million in the quarter to June 2021. This improvement is due to a greater than expected return on the assets.

Duncan Whitfield advised that this was a very good position to be in.

RESOLVED:

That the updated funding position at 30 June 2021 be noted.

13. LOCAL PENSION BOARD UPDATE

Mike Ellsmore updated the pensions advisory panel on the last meeting of the local pension board.

He advised that at the last pension board meeting an update was provided on the progress to date in implementing the COP14 action plan. A draft conflicts of interest policy for the LPB was also tabled. This may need to be amended in future to cover the whole pension fund.

It was also recommended that the pensions advisory panel commence preparing a fund-specific conflicts of interest policy as recommended in the good governance project.

There were no questions.

RESOLVED:

That the update from the local pension board (LPB) meeting of 21 July 2021 be noted.

14. PENSION SERVICES UPDATE

Barry Berkengoff, Pensions Manager, presented a brief report (as time was short) and updated the panel on the performance of the pension services team and on a number of the team's initiatives.

He advised that the first contact officer interviews had now taken place resulting in two appointments being made. The First Contact resource team service went live on 22 September 2021 and deals with all member and employer enquiries.

He informed the panel that Civica had delivered the first UPM test environment with member data from Altair, and that the Data/Systems team had begun testing and would work with Civica to resolve any data issues.

It was noted that recruitment to key roles in the pensions team was now complete. Two apprentice roles would form the final stage of pensions recruitment.

Finally, it was noted that there were no serious complaints from members of the pension fund to report.

Duncan Whitfield thanked Barry and his team for all of their hard work.

RESOLVED:

That the update on the pensions administration function be noted.

15. ANY OTHER BUSINESS

There was none.

The meeting ended at 4.34pm.

CHAIR:

DATED:

Agenda Item 6

Item No. 6	Classification: Open	Date: 22 December 2021	Meeting Name: Pensions Advisory Panel
Report title:		Carbon Footprint Update – 30 Sept 2021	
From:		CIPFA Trainee, Treasury & Pensions	

Recommendations

The PAP is asked to:

- Note the Fund's updated carbon footprint as at 30 Sept 2021.

Since December 2018, the Fund has engaged Sustainalytics to assist with assessments of the CO2 equivalent exposure of its equity holdings. The table below sets out the weighted carbon intensity by asset class since September 2017.

Asset Class	Fund Managers	Current Target Asset Allocation	Weighted Carbon Intensity (tCO2e/$m revenue)												
			September 2017	December 2017	March 2018	June 2018	September 2018	December 2018	December 2019	June 2020	September 2020	December 2020	March 2021	June 2021	September 2021
Equity – Developed & Low Carbon	**Blackrock, LGIM**	35.0%	98.7	98.7	81.2	63.9	63.9	49.6	62.9	50.8	55.1	44.1	47.2	25.5	29.8
Equity – Global	**Newton**	10.0%	10.6	10.6	10.4	10.4	10.4	4.7	3.7	3.7	7.0	7.0	4.4	4.6	4.3
Equity – Emerging Markets	**Blackrock**	0.0%	18.1	18.1	18.1	18.1	18.1	16.0	14.7	13.9	14.1	15.0	19.1	18.3	0.0
Equity – Emerging Markets	**Comgest**	5.0%	-	-	-	-	-	-	-	-	-	-	-	-	0.5
Diversified Growth	**Blackrock**	10.0%	26.7	22.4	17.6	20.0	10.1	15.0	15.1	20.9	15.9	16.0	15.6	14.2	15.8
Absolute Return Fixed Income	**Blackrock**	5.0%	22.4	16.9	14.3	13.4	15.9	11.5	8.3	15.6	7.1	8.7	10.0	9.8	10.2
Property	**Invesco, M&G, TH, Brockton, Frogmore**	20.0%	23.2	23.2	23.1	22.8	22.8	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5
Sustainable Infrastructure	**Glenmont, Temporis, BlackRock**	5.0%													
Il Gilts	**LGIM, Blackrock**	10.0%	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	26.0	25.2
Total		100.0%	213.7	204.0	178.7	162.5	155.2	132.3	140.2	140.4	134.6	126.3	131.7	120.0	107.3
Change Equity %				**0.0%**	**-13.9%**	**-27.5%**	**-27.5%**	**-44.8%**	**-36.2%**	**-46.4%**	**-40.2%**	**-48.2%**	**-44.5%**	**-62.0%**	**-72.8%**
Change Diversified Growth %				**-16.0%**	**-34.0%**	**-25.0%**	**-62.1%**	**-43.7%**	**-43.4%**	**-21.4%**	**-40.5%**	**-39.8%**	**-41.5%**	**-46.9%**	**-40.8%**
Change Absolute Return Fixed Income %				**-24.3%**	**-36.3%**	**-40.2%**	**-28.7%**	**-48.8%**	**-62.8%**	**-30.0%**	**-68.4%**	**-61.2%**	**-55.4%**	**-56.1%**	**-54.4%**
Change Property %				**0.0%**	**-0.2%**	**-1.7%**	**-1.7%**	**-7.1%**	**-7.3%**	**-7.3%**	**-7.3%**	**-7.3%**	**-7.3%**	**-7.3%**	**-7.1%**
Total Change in Footprint %				**-4.5%**	**-16.3%**	**-23.9%**	**-27.4%**	**-38.1%**	**-34.4%**	**-34.3%**	**-37.0%**	**-40.9%**	**-38.3%**	**-43.8%**	**-49.8%**

Change of Approach

1. Measuring the carbon intensity of index-linked gilts is not currently possible as it involves trying to measure the carbon footprint of the UK government. In order to be prudent, a proxy value has been calculated based upon the average carbon intensity of the fund's developed market funds since measurement began in September 2017 and has been used for the past two measurements. Developed market funds were selected as the baseline as these were the funds with the highest carbon intensity figures at the time. We will continue to work to improve the carbon footprint measurement over time and the continuing suitability of the index-linked gilts holdings will be reviewed in the short term as part of the relaunched investment strategy.

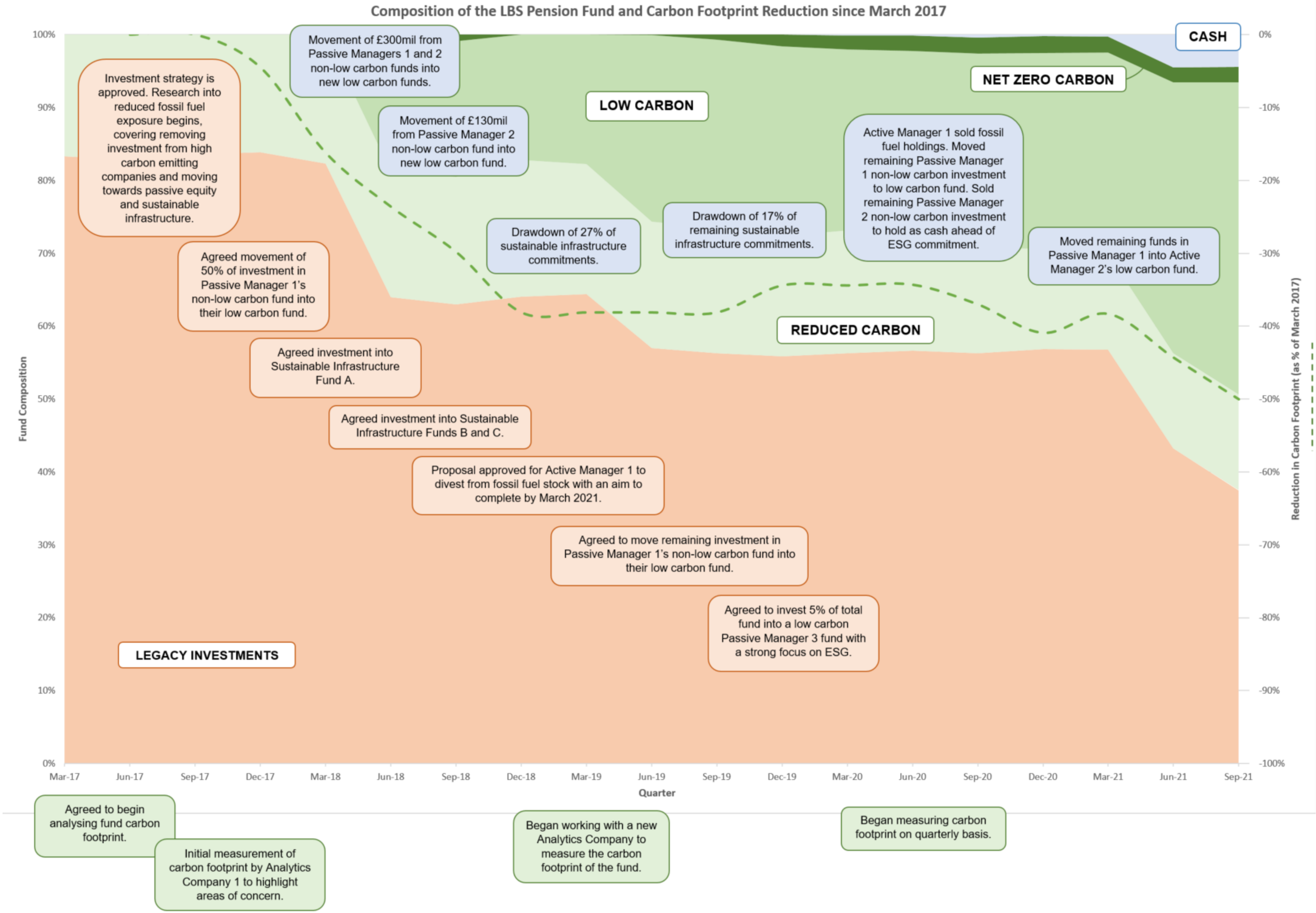
Results

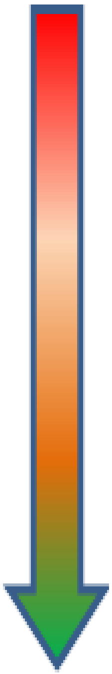
2. The results for September 2021 show that the Fund has reduced its weighted carbon exposure by 50% since September 2017. The movement of equities during the quarter to September 2021 from BlackRock passive emerging market holdings into the Comgest Global Emerging Markets Plus Fund has predominantly driven the reduction since the end of June 2021.

3. The unweighted exposure for each investment is set out below ranked in order of carbon footprint, from lowest to highest exposure.

Asset Class	Fund Manager	Sep-21 Unweighted Carbon Intensity (tCO2e/$M revenue)
Equity - Developed	Blackrock, LGIM	0.0
Equity - Emerging Markets	Blackrock, Comgest from Sept 21	10.4
Equity – Active	Newton	35.0
Absolute Return Fixed Income	Blackrock	154.4
Equity – Developed Low Carbon	Blackrock, LGIM	155.0
Diversified Growth	Blackrock	163.0
Property	Invesco, M&G, TH, Brockton, Frogmore	215.4
Index Linked Gilts	LGIM, Blackrock	282.4

4. The carbon footprint reduction infographic (set out below, with further information on the following page) has been produced in order to demonstrate the changes in the composition of the Fund in terms of carbon emissions against the reduction of the carbon footprint over time. The graph is intended for use as a way of easily displaying the Fund's progress towards net zero and can be easily updated over time.


Composition of the LBS Pension Fund and Carbon Footprint Reduction since March 2017
Fund Composition
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Reduction in Carbon Footprint (as % of March 2017)
0%
-10%
-20%
-30%
-40%
-50%
-60%
-70%
-80%
-90%
-100%
Mar-17
Jun-17
Sep-17
Dec-17
Mar-18
Jun-18
Sep-18
Dec-18
Mar-19
Jun-19
Sep-19
Dec-19
Mar-20
Jun-20
Sep-20
Dec-20
Mar-21
Jun-21
Sep-21
Quarter
CASH
NET ZERO CARBON
LOW CARBON
REDUCED CARBON
LEGACY INVESTMENTS
Investment strategy is approved. Research into reduced fossil fuel exposure begins, covering removing investment from high carbon emitting companies and moving towards passive equity and sustainable infrastructure.
Movement of £300mil from Passive Managers 1 and 2 non-low carbon funds into new low carbon funds.
Movement of £130mil from Passive Manager 2 non-low carbon fund into new low carbon fund.
Drawdown of 27% of sustainable infrastructure commitments.
Drawdown of 17% of remaining sustainable infrastructure commitments.
Active Manager 1 sold fossil fuel holdings. Moved remaining Passive Manager 1 non-low carbon investment to low carbon fund. Sold remaining Passive Manager 2 non-low carbon investment to hold as cash ahead of ESG commitment.
Moved remaining funds in Passive Manager 1 into Active Manager 2's low carbon fund.
Agreed movement of 50% of investment in Passive Manager 1's non-low carbon fund into their low carbon fund.
Agreed investment into Sustainable Infrastructure Fund A.
Agreed investment into Sustainable Infrastructure Funds B and C.
Proposal approved for Active Manager 1 to divest from fossil fuel stock with an aim to complete by March 2021.
Agreed to move remaining investment in Passive Manager 1's non-low carbon fund into their low carbon fund.
Agreed to invest 5% of total fund into a low carbon Passive Manager 3 fund with a strong focus on ESG.
Agreed to begin analysing fund carbon footprint.
Initial measurement of carbon footprint by Analytics Company 1 to highlight areas of concern.
Began working with a new Analytics Company to measure the carbon footprint of the fund.
Began measuring carbon footprint on quarterly basis.



LEGACY INVESTMENTS: Investment products that are not actively targeting reduced carbon emissions. Some of these may potentially have exposure to fossil fuels; however we are working to understand the extent of this and will address this in our strategy going forwards. The Fund intends to make no new investments in such products.

REDUCED CARBON: Investments either in property or in funds with specific oil and gas exclusions.

LOW CARBON: Funds specifically set up as ‘low carbon’ funds. All products within this category are currently index tracking developed market equities.

ZERO CARBON: Investments in vehicles that produce zero carbon or in some cases have a measurable offsetting impact on carbon emissions. Currently this category contains sustainable infrastructure products.

CASH: Held in the pension fund, usually pending anticipated drawdown requests or in advance of an acquisition.

Community, Equalities (including socio-economic) and Health Impacts

5. **Community Impact Statement**

No immediate implications arising.

6. **Equalities (including socio-economic) Impact Statement**

No immediate implications arising.

7. **Health Impact Statement**

No immediate implications arising.

8. **Climate Change Implications**

No immediate implications arising.

9. **Resource Implications**

No immediate implications arising.

10. **Legal Implications**

No immediate implications arising

11. **Financial Implications**

No immediate implications arising.

12. **Consultation**

No immediate implications arising.

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Jack Emery, CIPFA Trainee, Treasury & Pensions	
Version	Final	
Dated	14 December 2021	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		15 December 2021

LONDON BOROUGH OF SOUTHWARK - Quarterly Report September 2021

Market Background

A modest positive outcome for funds masked a quarter full of ups and downs. July opened on a down note with a new COVID variant and negative events in China undermining the outlook for global growth. A positive earnings season in developed regions coupled with lower infection/higher vaccination rates generally helped equities rise in August. Rising bond yields, the spectre of stagflation (high inflation/low growth) and continued worries over China weighed on sentiment and the result was a September sell-off.

Equity markets posted a small positive for UK investors, propped up by a weak pound. Regional performance was mixed. Japan was the standout performer with markets buoyed by a reopening of the economy and prospect of further monetary stimulus. Lesser Asian and emerging markets performed poorly weighed down by weak Chinese performance. At a sector level, energy stocks fared best on the back of rising prices and financials benefitted due to the prospect of higher interest rates.

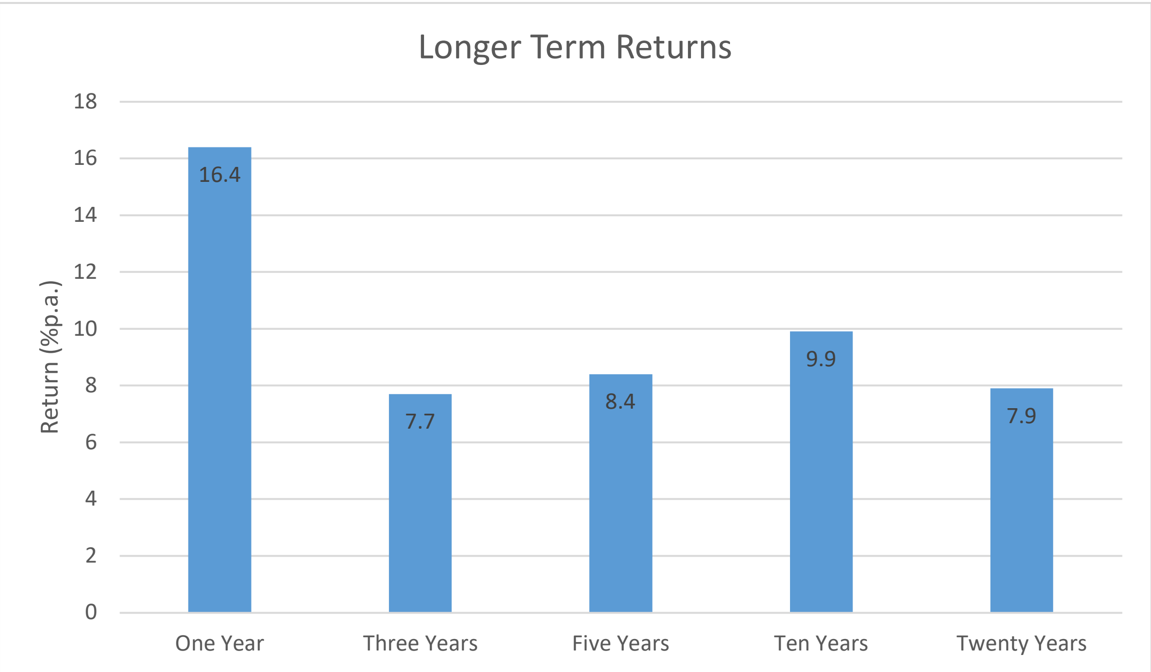
Nominal bond markets posted negative returns as yields rose and linkers correspondingly returned positively as real yields fell.

Property returns are expected to be positive as capital values continue to rise in sectors such as industrials and stabilise in office and retail.

LGPS Funds
The average LGPS funds is expected to have returned a modest 1.4% over the quarter.

Longer-Term
The one-year number remains strongly positive at 16%, driven by buoyant equity returns.

The three-year number remains around 8% p.a., well ahead of most funds' expectations. Over the medium term, the returns remain strong with the ten-year result now nudging 10% p.a. and the twenty-year return +8% p.a.



Total Fund

The Fund returned 1.7% over the quarter outperforming the benchmark by a small margin.

Performance from the Fund's managers was mixed as might be expected but more negatives were posted than positives. The analysis below shows the make-up of the returns, absolute and relative.

Manager	Brief	Start Value (£m)	Returns Fund	Returns Benchmark	Returns Relative Return	Contributions Fund	Contributions Benchmark	Contributions Relative
BLK	Equity/ILG	553,145	1.7	0.6	1.1	0.5	0.2	0.3
LGIM	Equity/ILG	485,245	2.4	1.6	0.8	0.6	0.4	0.2
BLK	Diversified Growth	197,122	0.5	0.8	-0.3	-	0.1	-
BLK	Absolute Return Bond	135,308	-0.2	1.0	-1.2	-	0.1	-0.1
Newton	Global Equity	255,209	1.8	2.1	-0.3	0.2	0.3	-
Comgest	EM Equity	0	-	-	-	-	-	-
Brockton	Property	5,591	0.0	3.6	-3.4	-	-	-
Nuveen	Property (Core)	202,136	4.1	4.9	-0.7	0.4	0.5	-0.1
Invesco	Property	30,289	0.5	1.9	-1.4	-	-	-
M&G	Property	22,511	1.0	1.9	-1.0	-	-	-
Frogmore	Property	7,352	-0.7	3.9	-4.4	-	-	-
Glenmont	Infrastructure	14,787	0.8	2.4	-1.6	-	-	-
Temporis	Infrastructure	23,979	1.8	2.4	-0.7	-	-	-
BLK	Infrastructure	3,004	3.1	2.4	0.6	-	-	-
BLK/LBS	Cash	90,000	0.0			-	-	-
Total		**2,025,677**	**1.7**	**1.6**	**0.1**	**1.7**	**1.6**	**0.1**

The third column from the right shows how much the managers have contributed to the overall return of 1.7%. Both passive balanced portfolios* and the core property portfolio contributed most whilst none of the managers registered a meaningful negative contribution. The column on the right-hand side shows how much the managers have contributed to the excess return of 0.1%.

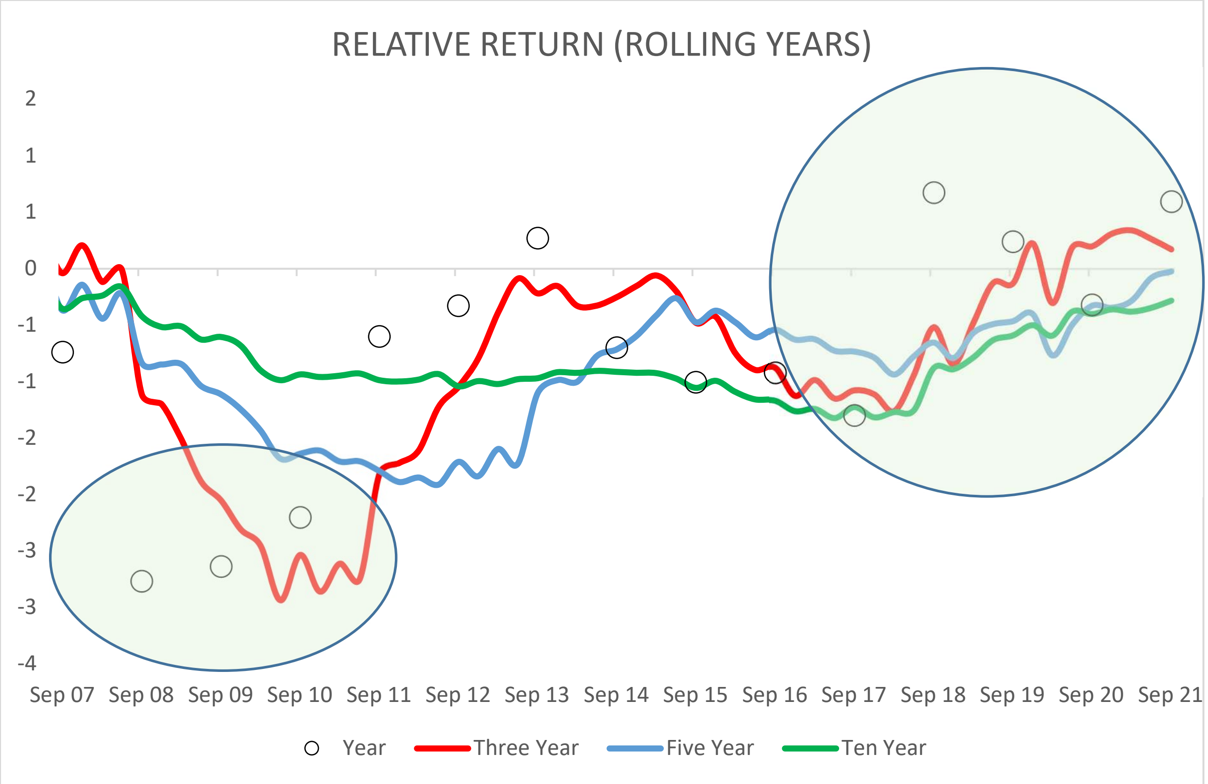
The one-year return for the Fund was an extremely healthy 15.8% almost 0.7% above benchmark.

Medium-term, the Fund has returned between 9.2%p.a. and 9.5%p.a. over the three and five-year periods. The shorter period return was ahead of benchmark, the longer period almost exactly in line.

Over the last ten-years, the Fund has delivered a very valuable 11.0%p.a. return but still 0.2%p.a. off the target.

Returns have been improving of late and while long-term returns are still sub-benchmark, the margin is reducing. The legacy of poor active equity performance which had the Fund trailing by 2% to 3% p.a. a few years ago is diminishing. I enclose again a chart plotting the Fund's returns over a number of rolling periods relative to the benchmark. I have selected a 15-year period to review.

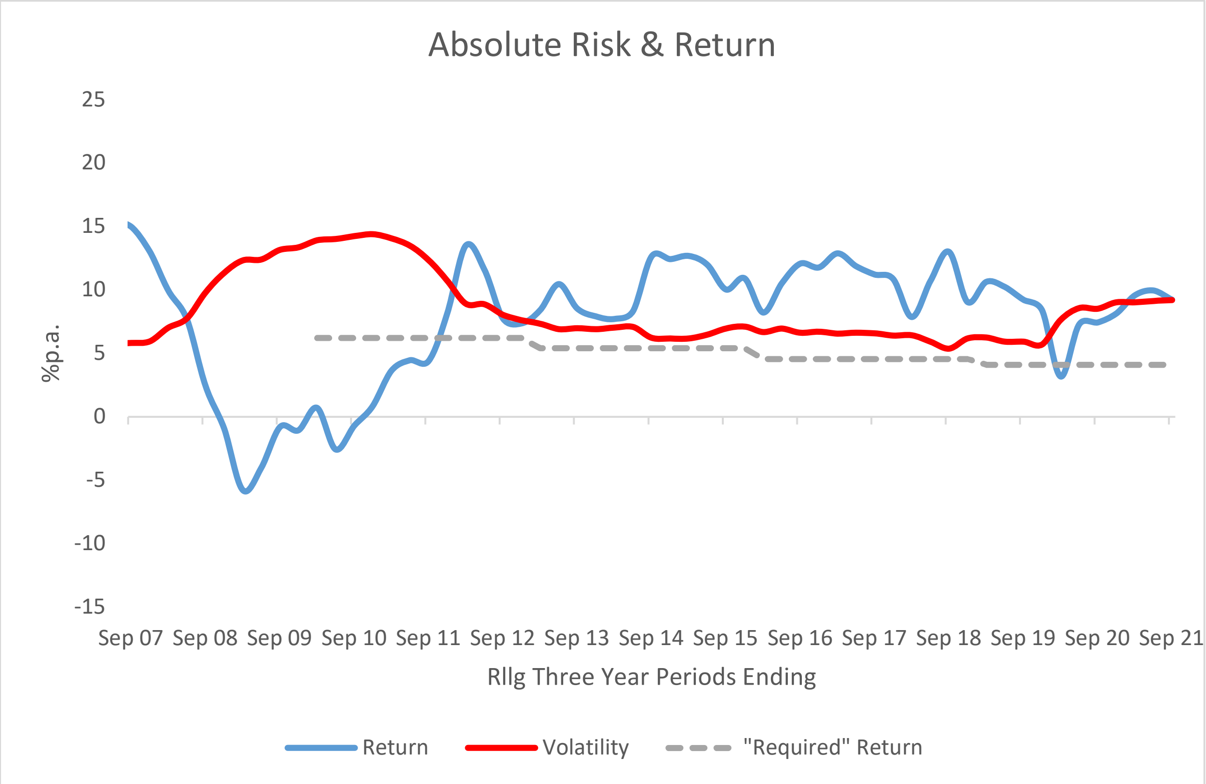
* The benchmarks calculated by JPM for these portfolios are under review



There is quite a bit to take away from this busy chart but in summary,

- Individual annual returns (the black discs) have more often than not been below the horizon i.e., behind benchmark. Of the 15 years, 11 have been below but most significantly in 2008 to 2010 where the Fund suffered from poor asset manager performance.
- What is clear is that the returns are on an improving trend e.g., three of the last five years are above benchmark and the rolling 'trails' are trending in the right direction
- Importantly, annual return volatility has become more contained

One final chart shows the progression of risk and return over time.



What this shows is,

- Once the impact of the global financial crisis drops out of the observations (the left hand side of the chart), both return and volatility track within a reasonably narrow range
- Over this same period, returns have consistently outpaced the return assumption used in the Actuary's modelling (the dotted line on the chart)
- Risk and return moreso have largely 'mean reverted' following the short sharp dip at the outset of the pandemic (right hand side of the chart)

Newton – Active Global Equity

Newton outperformed the World index by around 0.3% over the quarter. In a difficult market dominated by macro shifts, sector allocation was neutral, and it was stock selection that added value.

Relative to the stretched (index plus target aspiration) benchmark, the portfolio lagged by .3%.

The portfolio's annual return was strongly positive but quite a bit behind the benchmark – fund 22%, benchmark (inc. stretch) 25.8%.

Longer-term numbers are very strong in absolute terms but remain some way short of target (particularly nearer-term).

BlackRock - Active

Once again, the two active positions performed quite differently over the quarter.

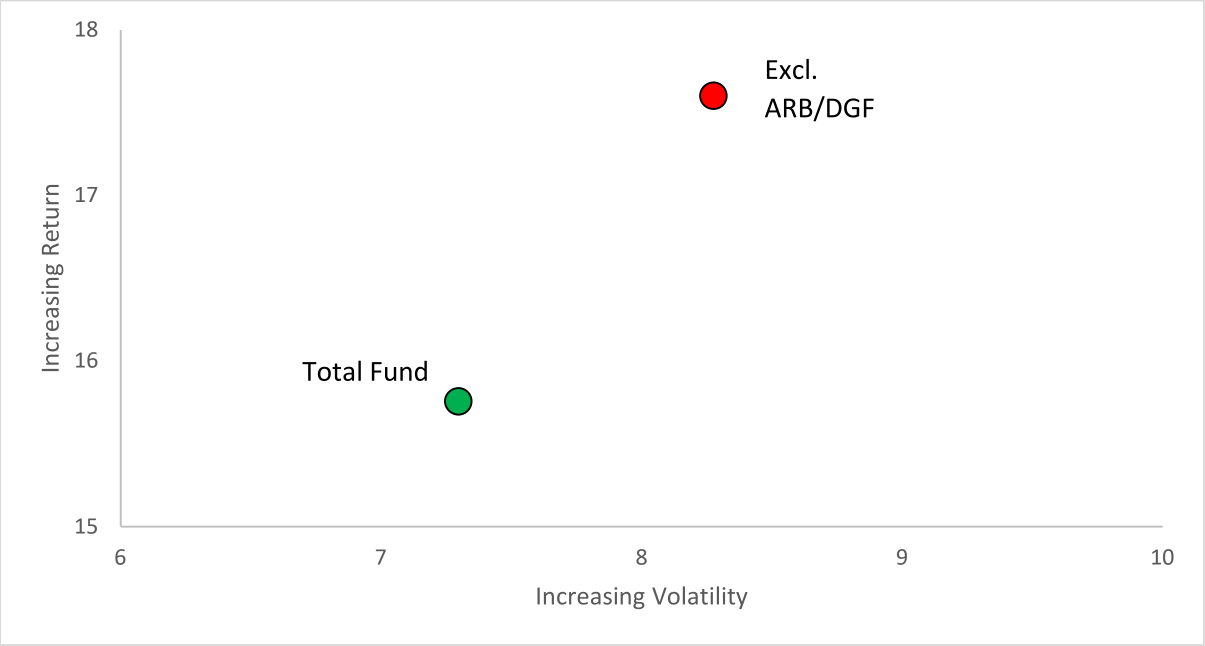
Performance in the ARBF portfolio was negative but less severely so than the main traditional bond indices. A shorter duration and exposure to Asian credit weighed on returns.

The return from the DG portfolio was positive, driven primarily from developed and emerging equities.

Since their inception, returns from both strategies have been modest low digit single figures. In combination, the result has been generally ahead of the 3-4% absolute return sought.

These two portfolios hold traditional assets, but return profiles are designed to deliver results differently. In strong growth environments, returns will appear pedestrian, but in down markets, returns should be less impacted. Importantly, overall Fund volatility should reduce in any prevailing market condition – growth or cyclical.

The chart below illustrates the impact over the full year to September. The actual Fund outcome is the green plot, the notional outcome (excl. ARB/DG) is the red plot.



This picture has remained ‘normal’ in a return sense as growth assets have re-exerted dominance.

In essence, the strategy has worked in terms of risk reduction but arguably, the return sacrifice has been greater than we would have liked. This is a very short-term view however.

Nuveen Real Estate – Core Property

The portfolio performance was positive over the quarter, returning 3.9% (Nuveen numbers). Capital appreciation and income both added value. The return of positive valuation growth is very encouraging indeed. The Fund's industrial assets benefited from a further strong quarter, delivering total returns of 8.9%. In terms of valuations, over the quarter industrial valuations increased by 7.8%, retail increased by 0.5% and office valuations increased marginally by 0.2%.

The portfolio's remaining indirect holding performed extremely well returning almost 23% over the period. Valuations have rebounded substantially post the easing of lockdown.

The full year return reported by Nuveen is 11%. This has improved medium-term numbers, but these remain disappointing not just for Southwark but for the asset class generally.

The current seven-year number of 5.4%p.a. is behind the 7%p.a. target set by the Panel.

Other Real Estate

Reported returns were typically behind benchmark over the quarter and the full year. Quarterly reporting helps little in understanding investments in this sector.

Southwark's Property Allocation

The core and added value/opportunistic assets continue to perform quite differently.

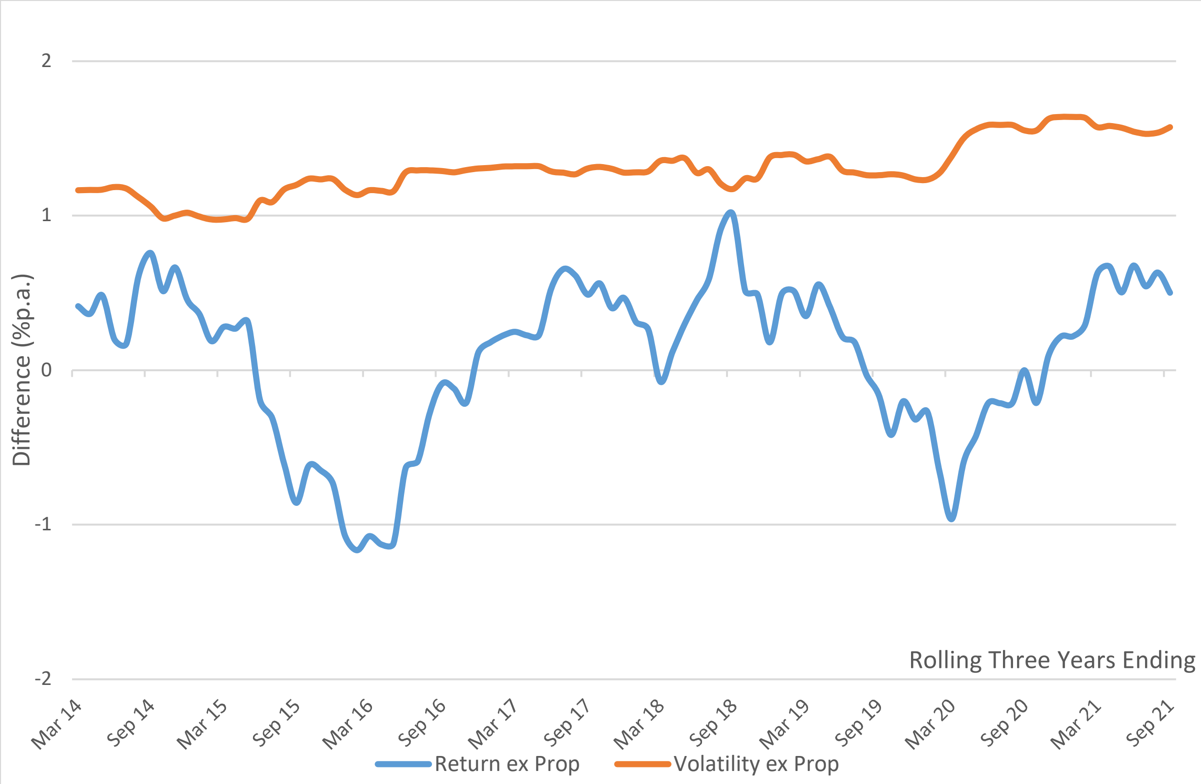
As mentioned previously, the added value/opportunistic portfolios are still early stage so a measure of underperformance against their relatively challenging benchmarks and volatility thereof should not cause undue concern.

The core portfolio is around three-quarters of the overall allocation so this will realistically dictate how the Fund's real estate assets perform.

The Fund's large commitment to the asset class is an important differentiator in its overall strategy.

The chart below shows the impact on risk and return over consecutive rolling three-year periods.

In the latest three-year period, without property the overall return would have been higher (around 0.5%p.a.) but volatility significantly higher (by around 1.6%p.a.). This continues to be a very acceptable trade-off.



Infrastructure

The Fund's infrastructure investments are just over a year old and comprise around 2% of the overall asset value. They are very early stage and some way from being generative in terms of return.

Passive Portfolios

The passive mandates have largely tracked the respective benchmarks as we would expect.

Summary

- Another positive quarter for the Fund despite continued fluctuations in sentiment over the period
- Funds have performed extremely well in general and ours, illustrated in the charts above is no different
- Highlights have been excellent returns from our growth assets and an improvement in the property returns
- Despite recent market turbulence, assets have grown more than actuarial assumptions and barring any significant return shocks, will see a significant improvement in funding levels at the next valuation
- Newton continues to generate positive returns but lags the target aspiration. I'll do some more work on this for my next report
- Returns from the newer infrastructure and smaller property portfolios appear behind target but we should remind ourselves that these are longer-term investments. Short-term performance measures are often spurious

Quarterly Investment Dashboard Q3 2021

London Borough of Southwark Pension Fund

Prepared for: The Pensions Advisory Panel
Prepared by: Aon
Date: 22 December 2021

QAS Institute and Faculty of Actuaries ® Quality Assurance Scheme

Aon

At a glance…

Assets

£2060.7m ▲

Assets increased by £35.5m over the quarter.

Funding

114% -

Funding decreased by 0.1% over the quarter.

Surplus

£251m -

Surplus largely unchanged (a slight fall of £4m).

Manager ratings

10 **Buy rated** 6 **Not rated**

0 **Qualified** 0 **Not recommended**

Performance (short term)

+1.7% ▲

Scheme outperformed benchmark returning 1.7% vs 1.6% over the quarter.

Performance (longer term)

+9.2% ▲

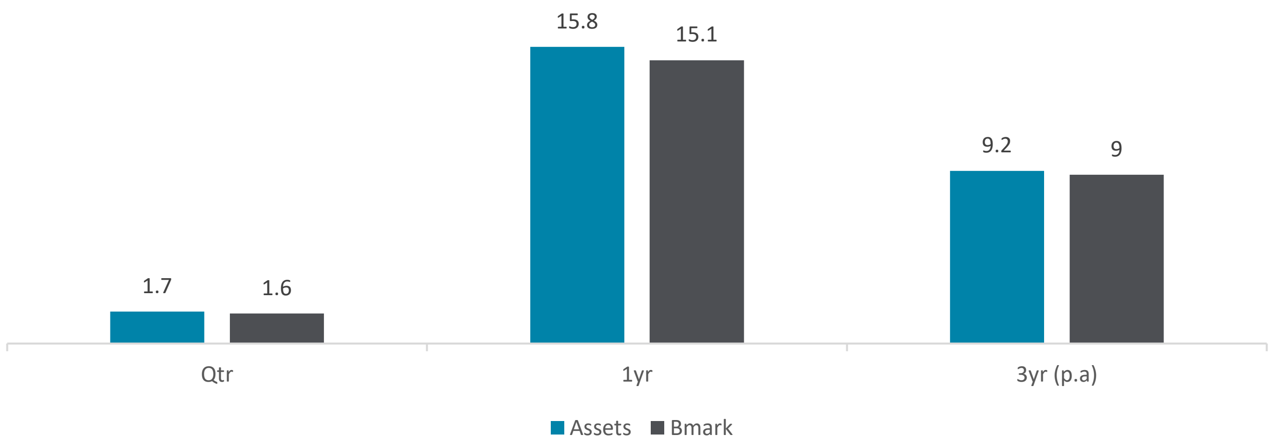
Over 3 years the scheme has outperformed benchmark returning 9.2% vs 9.0%.

Comments

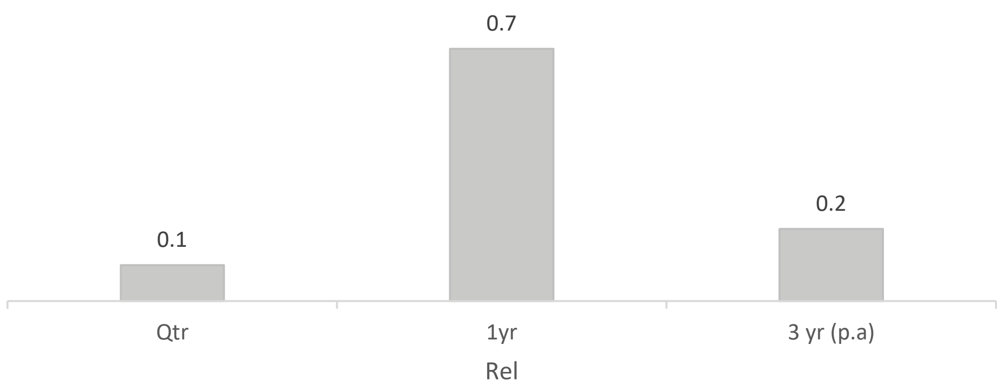
- The Fund's total assets increased by £35.5m over the quarter, from £2025.2m to £2060.7m.
- The Fund performance over the quarter was +1.7%, this was 0.1% higher than the benchmark return. The Fund also outperformed the benchmark over the 1 and 3 year periods, generating annualised performance of 15.8% and 9.2% respectively.
- The Fund's funding level remained at 114% over the quarter. The surplus marginally decreased due to a slight fall in the discount rate (minus CPI) increasing liabilities. However this has mostly been offset by better than expected asset returns.
- The Fund transitioned all holdings (£107.8m) from the BlackRock Emerging Markets Index Funds into the Comgest Growth Emerging Markets Fund with the monies settling on 10 September 2021.

Fund performance – Snapshot

Fund performance & benchmark



Relative performance



Quarterly (relative)

+0.1%

The scheme returned 1.7% vs 1.6% over the quarter

3 year (relative)

+0.2%

The scheme returned 9.2% vs 9.0% over the period

Comments

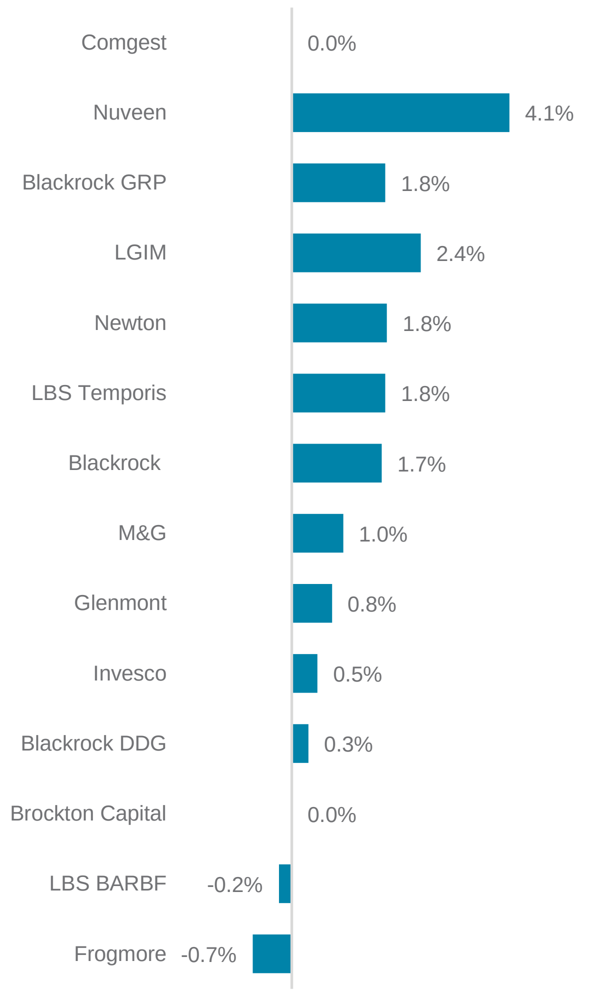
Over the quarter, the scheme marginally outperformed the benchmark.

Notable detractors to performance were Frogmore Real Estate Fund, Brockton Capital III Fund, Invesco Real Estate Fund while positive contributors included Blackrock GRP and the LGIM and BlackRock balanced portfolios.

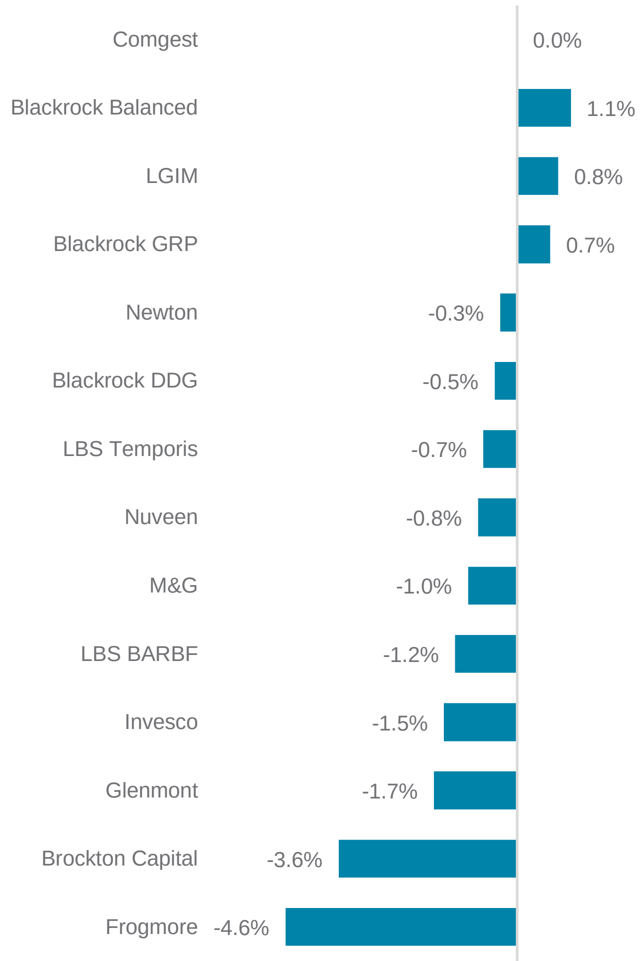
Source: J.P.Morgan and fund managers as required. Totals may not sum due to rounding

Manager performance – Quarter Snapshot

Absolute performance



Relative performance



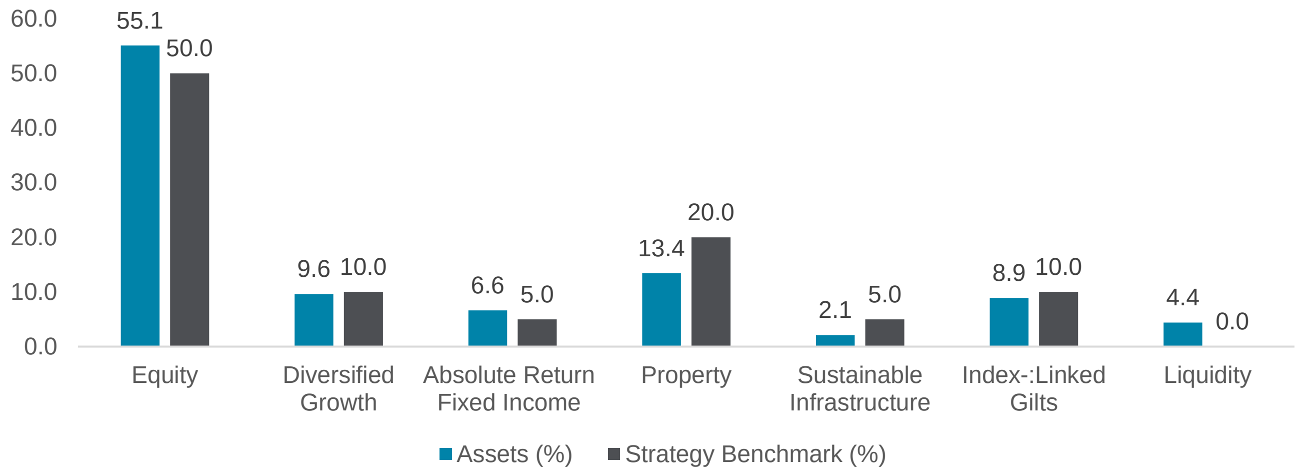
Rating summary

Manager Ratings	# of Funds
Buy	10
In review	0
Qualified	0
Sell	0
Not rated	6
Not recommended	0

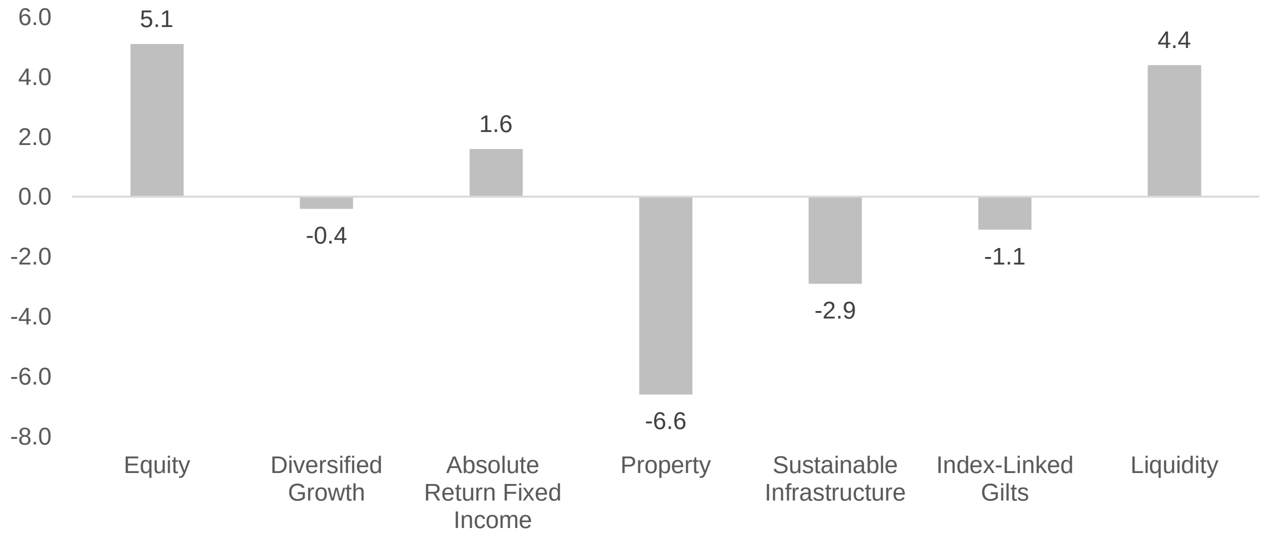
Fees shown are net. Source: J.P.Morgan and fund managers as required.

Strategic allocation – Snapshot

Strategic allocation & benchmark



Relative allocation



Source: J.P.Morgan and fund managers as required. Totals may not sum due to rounding

Assets

£2060.7m

Assets increased by £35.5m over the quarter.

Comments

- Equity and absolute return fixed income are overweight relative to strategic target for the asset class, while diversified growth, index-linked gilts, sustainable infrastructure and property are underweight target exposure.
- However, all asset classes are well within the maximum strategic allocation limit.
- The Fund transitioned all holdings (£107.8m) from the BlackRock Emerging Markets Index Funds into the Comgest Growth Emerging Markets Fund with the monies settling on 10 September 2021.
- Following quarter end, assets were transitioned from the LGIM Passive Equity Fund to finance investments into the Blackstone GP Stakes Fund and the BTG Pactual Fund.

Explanation of Ratings – Overall ratings

Overall ratings

An overall rating is then derived taking into account both the above outcomes for the product. The table lists how the overall rating can be interpreted.

The comments and assertions reflect our views of the specific investment product and our opinion of its quality. Differences between the qualitative and Aon InForm outcome can occur and if meaningful these will be explained within the Key Monitoring Points section. Although the Aon InForm Assessment forms a valuable part of our manager research process, it does not automatically alter the overall rating where we already have a qualitative assessment. Overall rating changes must go through our qualitative manager vetting process. Similarly, we will not issue a Buy recommendation before fully vetting the manager on a qualitative basis.

Overall Rating	What does this mean?
Buy	We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products
Buy (Closed)	We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products, however it is closed to new investors
Qualified	A number of criteria have been met and we consider the investment manager to be qualified to manage client assets
Not Recommended	A quantitative assessment of this strategy indicates it does not meet our desired criteria for investment. This strategy is not recommended.
Sell	We recommend termination of client investments in this product
In Review	The rating is under review as we evaluate factors that may cause us to change the current rating

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Agenda Item 8

Item No. 8	Classification: Open	Date: 22 December 2021	Meeting Name: Pensions Advisory Panel
Report title:		Launch of New Investment Strategy	
From:		Senior Finance Manager, Treasury & Pensions	

Recommendations

The PAP is asked to:

- Agree the final version of the Investment Strategy Statement as Appendix A.
- Agree the updated investment strategy to achieve net zero carbon exposure by 2030 as Appendix B.

1. **Background**

- In accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, an Administering Authority must prepare and maintain a written Investment Strategy Statement (“ISS”) of the principles governing its decisions on the investment of the Fund. The ISS must be in accordance with guidance issued by MHCLG.
- The Fund’s existing ISS was published in April 2017 and there is a requirement to review the policy from time to time and at least every three years.
- The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments that the Fund will invest in particular investments or classes of investment.
- As part of the 2017 Investment Strategy Statement, and following the council’s commitment to reduce fossil fuel exposure in the pension fund’s investments over time, an investment strategy setting out how this would be achieved was agreed.

2. **Consultation**

- A two-week formal consultation on the new Investment Strategy Statement has been conducted with scheme employers, with no responses being received.

3. **Revised Investment Strategy**

- The previous strategy has acted to counteract the risk to the Fund of exposure to fossil fuels. When this strategy was agreed, we set out a short, medium and long-term plan.
- During this time, significant progress has been made, whilst maintaining investment performance. This strong performance, along with the Fund's conviction that strong investment performance can be delivered alongside reducing carbon exposure, has demonstrated that it is now appropriate to move to the next stage of revising the strategy to make further progress towards a net zero carbon commitment by 2030.

4. **Next Steps**

- The investment strategy statement and revised investment strategy, to achieve net zero carbon by 2030, have been amended to take account of comments raised at the last PAP meeting in September 2021. PAP members are asked to agree the final version of both documents.
- Following agreement, the new investment strategy will be launched on the pension fund website.

<u>Community, Equalities (including socio-economic) and Health Impacts</u>

5. **Community Impact Statement**

No immediate implications arising.

6. **Equalities (including socio-economic) Impact Statement**

No immediate implications arising.

7. **Health Impact Statement**

No immediate implications arising.

8. **Climate Change Implications**

No immediate implications arising.

9. **Resource Implications**

No immediate implications arising.

10. **Legal Implications**

No immediate implications arising.

11. **Financial Implications**

No immediate implications arising.

12. **Consultation**

No immediate implications arising

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance
Report Author	Caroline Watson, Senior Finance Manager, Treasury & Pensions
Version	Final
Dated	14 December 2021
Key Decision?	No

CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		15 December 2021

Investment Strategy Statement

London Borough of Southwark Pension Fund

1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 Regulation 7 requires administering authorities to formulate and to publish a statement of their investment strategy (ISS), in accordance with guidance issued from time to time by the Secretary of State.

This ISS has been designed to be a living document and is an important governance tool for the London Borough of Southwark Pension Fund (the Fund). This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, outlines the Fund's approach to managing risk, how environmental, social and governance issues are taken into account and the approach with regard to pooling of investments. This document replaces the Fund's Statement of Investment Principles.

This statement will be reviewed by the Pensions Advisory Panel annually, or more frequently should any significant change occur, with any resulting recommendations made to the Strategic Director of Finance and Governance.

Southwark Council is the administering authority for the Southwark Local Government Pension Fund and bears ultimate responsibility for the funding of member pensions. The management and strategic direction of the Fund, whilst separate from the council, will always take into consideration the council's long term objectives.

In this regard the Fund's investment principles are aligned with the council's values as defined in the Borough Plan, in particular, the value of "spending money as if it were from our own pocket."

https://moderngov.southwark.gov.uk/documents/s92006/Appendix%20A%20Southwarks%20Borough%20Plan%202020.pdf

The pension fund has its own climate strategy and goals which are consistent with council targets to become carbon neutral by 2030. This is ahead of the UK government's commitment to achieve net zero by 2050.

The Fund is fully committed to collaboration with other local authority partners and in 2015 invested in the London Collective Investment Vehicle (CIV). The London CIV is a collaborative venture between local authorities to deliver benefits of investment scale and efficiency to the participating Funds. The Fund will continue to support the development of the London CIV as an investment vehicle.

2. Investment objectives and principles

The Fund is an open, defined-benefit pension fund as part of the national Local Government Pension Scheme. The Scheme rules are determined at national level and cover many elements of the Fund, such as employee benefits and employee contributions. The nature of the Fund and scheme design means that payment of pensions will extend over the very long term.

In setting the investment strategy the Fund seeks to balance twin objectives: first, to achieve sufficient long-term returns for the Fund to be affordable and second, to keep the employers' contribution rate as stable as possible.

The Fund will seek to operate a long term, sustainable strategy; one which does not rely upon the pursuit of short term returns or adherence to asset management trends, but utilises a well structured asset and fund manager investment allocation to target long term socially responsible investment performance. The Fund's uncomplicated investment structure provides significant flexibility and adaptability if required.

To achieve the twin objectives, the Fund needs to invest in a diverse range of assets which provide higher returns relative to the growth of pension liabilities whilst taking account of the volatility inherent in investment markets. The principles set out below provide high level guidance on how the Fund seeks to meet these objectives and manage the associated risks.

Governance

- The Fund seeks at all times to adopt best practice governance standards within a structured framework, compliant with regulatory requirements and with expert independent advice taken throughout the decision making process.
- The Fund will operate with transparency and be accountable for decision making to stakeholders and scrutiny bodies.
- The Fund will ensure that officers and members of the Pensions Advisory Panel and Local Pension Board have the necessary skills, expertise and resources to ensure effective and evidence based decision making regarding the Fund's investment strategy.

Investment structure and risk management

- The Fund is a long term investor and as such the Fund invests in a wide range of investment assets, which may be volatile (such as equity) or illiquid (such as property), but that over the long term can generate a sufficient return to at least meet the Fund's pension obligations.
- The Fund operates an evidence and research based approach to investment; continually utilising research and guidance from investment professionals and peers, and seeking continual development in the understanding of investment.
- The Fund recognises the importance of having the right asset allocation, but also the value of developing the most appropriate structure and appointing suitable investment managers. The Fund will take account of market movements, cycles and the economic

background in decision making, but will avoid making decisions on a purely short term basis.

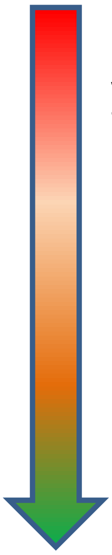
- The Fund will be comprehensive in the consideration of risks; the Fund will base assessments of risk on future pension liabilities and contributions, will consider financial and non-financial risks, diversify investment assets in an appropriate manner, but also recognise the limits of that diversification. As a long term investor the Fund understands that investment success depends significantly on the sustainable growth of the economy.
- The Fund will seek the most efficient and cost-effective solutions to achieving the Fund's objectives. This may involve active management and other services where additional costs are justified. Fees will always be considered in the context of overall performance and it is recognised that higher performance may be associated with higher fees.
- The Fund is a shareholder in the London CIV, with the Fund making regular contributions to the London CIV to assist in the development and expansion of the collaborative venture. Any future investments within the London CIV will be dependent upon the satisfactory completion of detailed due diligence and review to the same high standard that would be undertaken outside the investment pool.

Responsible investment and stewardship

- The Fund is a responsible investor; holding the belief that integrating responsible investment factors such as ESG in the investment process will protect, if not generate better returns over the long term.
- The Fund seeks to integrate responsible investment factors into the investment process across all asset classes.
- The Fund is prepared to be innovative in its investment strategy in order to cultivate positive social impact, within a framework of prudence and fiduciary duty.
- The Fund will proactively exercise responsible stewardship of assets held and act as a responsible voice in the broader investment community through platforms such as the Local Authority Pension Fund Forum.
- The Fund will collaborate with others whenever possible to share ideas and best practice, and to improve effectiveness and to reduce costs.
- The Fund considers the impacts and opportunities provided by climate change on both a Fund and wider social level, and so holds a commitment to meeting net zero carbon emissions from pension fund investment by 2030 with no direct investment in companies exposed to fossil fuels.

Categorisation of Investments

There is currently no standardised way of measuring the relative performance of different funds' carbon profiles; however, Southwark continues to work on its carbon footprint and investment classifications (see key below) to illustrate the progress being made.



NON LOW CARBON: Investment products that are not actively targeting reduced carbon emissions. Some of these may potentially have exposure to fossil fuels; however we are working to understand the extent of this and will address this in our strategy going forwards. The Fund intends to make no new investments in such products.

REDUCED CARBON: Investments either in property or in funds with specific oil and gas exclusions.

LOW CARBON: Funds specifically set up as 'low carbon' funds.

ZERO CARBON: Investments in vehicles that produce zero carbon or in some cases have a measurable offsetting impact on carbon emissions. Currently this category contains sustainable infrastructure and timberland products.

CASH: Held in the pension fund, usually pending anticipated drawdown requests or in advance of an acquisition.

The Fund will at all times monitor investments that are specifically reduced, low and zero carbon to ensure the Fund progresses towards the stated objectives of this strategy.

Within the context of achieving sustainable long-term returns, the Fund will always seek, as part of any reallocation of assets, to achieve a lower carbon footprint following the reallocation. Every new investment made will endeavour to be lower carbon than the one it is replacing.

The chart in Appendix B shows how the investment strategy has been implemented to date, with progressively greater proportions of the overall Fund invested in "greener" funds.

3. Investment strategy and the process for ensuring suitability of investments

The Fund's asset strategy, along with an overview of the role each asset plays is set out in the table below:

Asset class	Target Allocation %	Investment Style %	Maximum Allocation %	Role (s) within the strategy	Carbon Classification
Equity	45.0	Passive 30.0	60.0	Expected long term growth in capital and income in excess of inflation over the long term.	Low Carbon
		Active - Direct 10.0			Reduced Carbon
		Active – Indirect 5.0			Low Carbon
Diversified Growth	10.0	Active 10.0	20.0	Primarily for diversification from equities. Equity like returns over time with a lower level of risk.	Non low carbon
Absolute Return Fixed Income	5.0	Active 5.0	10.0	Diversified approach to fixed income investing which is not solely dependent on the direction of interest rates.	Non low carbon
Index Linked Gilts	10.0	Passive 10.0	40.0	Low risk (relative to the liabilities) asset that provides inflation linked income and protection from falling interest rates.	Non low carbon
Property	20.0	Direct 14.0	30.0	Provides diversification from equities and fixed income. Generates investment income and provides some inflation protection.	Reduced Carbon
		Pooled Fund 6.0			Reduced Carbon

<table>
<tr><td>Sustainable Infrastructure</td><td>5.0</td><td>Limited Partnership 5.0</td><td>10.0</td><td>Asset class provides additional diversification from traditional asset classes. Generates sustainable, reliable income with significant linkage to inflation. Provides risk mitigation from declining fossil fuel usage.</td><td>Zero carbon</td></tr>
<tr><td>Bereavement Services</td><td rowspan="3">5.0</td><td rowspan="3">Limited partnership 5.0</td><td rowspan="3">10.0</td><td rowspan="3">ESG priority allocation. Focus on investments with strong ESG and, in particular, low carbon credentials.</td><td>Reduced</td></tr>
<tr><td>Timberland</td><td>Zero</td></tr>
<tr><td>Private Equity</td><td>Reduced</td></tr>
</table>

The above table sets out the Fund’s asset allocation strategy with a target allocation to each asset class. If the actual asset allocation as at a reporting quarter end moves outside a target range for a particular asset class, (plus or minus 5% of total investment assets) the Strategic Director of Finance and Governance will review the portfolio(s) and prevailing market conditions to determine if a corrective rebalancing action is required. A breach of the target range will not automatically trigger a portfolio rebalance.

Under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Fund is required to set maximum investment limits pertaining to different asset classes so that actual allocation to those asset classes will not breach this maximum limit. The limits as applied to the Fund are set out in the above table.

Appendix A shows the Fund’s current investment manager appointments and mandates.

The Fund’s asset allocation is reviewed on an ongoing basis and undergoes a triennial strategy review as part of the actuarial valuation process. The triennial review, which reflects updated actuarial and capital market assumptions, looks at both qualitative and quantitative analysis, covering:

- The required level of return that will mean the Fund is able to meet its future benefit obligations as they fall due.
- The level of risk that the Fund can tolerate in absolute terms, and in relation to its funding level and associated surplus/deficit.
- An analysis of the order of magnitude of the various risks facing the Fund, so that the Fund can focus upon the most significant risks.
- The desire for diversification across asset class, region, sector, and type of security.

4. Risk measurement and management

The risks inherent within the Fund are assessed both qualitatively and quantitatively as part of regular investment strategy reviews by the Strategic Director of Finance and Governance and the Pensions Advisory Panel. The Fund uses specialist external investment advisers under contract, to support these reviews and on an ongoing basis. The Fund highly values the use of specialist support in the management of performance and risk.

The table below, based on the 31 March 2019 Actuarial Valuation results and estimates, shows how a range of events could impact on the Fund:

Event	**Event movement**	**Impact on the Fund**
Fall in equity markets	25% fall in equities	£223m
Rise in inflation	1% increase in inflation	£314m
Fall in interest rates	1% fall in interest rates	£314m
Underperformance by the active managers	3% collective underperformance	£31m

The Fund's overall investment strategy is designed to mitigate much of the underlying risk through the holding of a variety of different, diverse asset classes (e.g. long term directly held property investments).

Equity risk

The largest asset risk to the Fund is in relation to its equity holdings. Should equity markets deteriorate significantly this will have a large negative impact on the Fund's assets. The Fund invests in equities in order to provide the necessary long term expected returns to help ensure that the Fund remains affordable. The Fund believes that the extra returns that are expected to be generated by equities compensate for the level of risk equities bring to the Fund. However, the Fund is aware of the need for diversification in growth assets, and the Fund's strategy reflects this via allocations to absolute return investment mandates (with an asymmetric profile) and property (with a lower correlation to equity).

Inflation

CPI inflation will increase the value of pension benefits accrued by active and deferred members of the Fund as well as increasing the value of pensions in payment. The Fund has an allocation to index linked gilts for explicit inflation protection and other investment assets, such as property and equities, in the expectation that these will achieve returns in excess of inflation over time.

Active manager risk

Active investment managers are appointed to manage a portion of the Fund's assets. This brings with it the risk of underperformance relative to the market but also brings the chance of additional returns and diversification. The additional risk is small relative to other risks. Extensive due diligence is undertaken before managers are selected and investment managers are also monitored regularly by Fund officers, the Pensions Advisory Panel, and by the Fund's investment advisors.

Liquidity risk

The Fund recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon and the potential for an illiquidity premium in investment returns, the degree of liquidity risk within the portfolio is considered as acceptable. The Fund has a large allocation to property and is building an exposure to sustainable infrastructure, but the majority of the Fund's assets are realisable at short notice.

The table below sets out a summarised cash flow position of the Fund over the last five financial years.

	2016-17 £000	**2017-18 £000**	**2018-19 £000**	**2019-20 £000**	**2020-21 £000**
Contributions and Transfers In	55,789	54,711	58,891	65,787	69,712
Benefits and Transfers Out	(60,269)	(63,406)	(71,384)	(71,384)	(67,580)
Investment Income	14,324	15,432	15,287)	15,287	12,636

	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000
Net Position	**9,844**	**10,054**	**10,917**	**9,690**	**14,768**

The Fund is currently cash flow positive; in that the sum of contributions received and investment income is greater than the benefits paid out to pensioners. During 2020-21 the Fund received £14.8m more in contributions and investment income than was paid out in benefits. As such the Fund is not currently exposed to unplanned and inefficient divestment of assets.

Exchange rate risk

This risk arises from investing in unhedged overseas (non GBP denominated) assets, with all pension benefits due to be paid in sterling. As a long term investor the Fund takes the view that currency volatility can be tolerated. Sterling has for many years been a depreciating currency and the Fund has benefitted significantly in return terms from not hedging this risk. The Fund's portfolio is well diversified across asset classes, geography and investment managers.

Demographic risks

The Fund is subject to a range of demographic risks, but with particular importance to the investment strategy is the possibility of a maturing Fund membership profile. This would involve a change in the ratio between active members contributing into the Fund and pensioner members drawing pension benefits from the Fund. The more mature a pension fund, the more likely it is that disinvestments would need to be made to pay benefits. The Fund is not in that situation at present as income from contributions and investments is greater than benefit payments. However, this situation is monitored regularly and formally as part of the actuarial valuation and strategy review.

Environmental, social and corporate governance policy

The Fund is a long term investor that aims to deliver a truly sustainable pension fund; ensuring that it is affordable, delivers financially to meet the objectives of the Fund employers, and is invested responsibly.

The fiduciary duty of the Fund is to act in the best long term interests of Fund members. To do so properly requires the Fund to recognise that environmental, social and governance issues can impact on the Fund's financial performance and that they should be taken into account in funding and investment strategies, and throughout the funding and investment decision making process.

The Fund will seek to incorporate ESG considerations at all stages in the investment process; from the overall asset allocation, to individual investment selections, and continued engagement and responsible stewardship of Fund assets.

The responsible investment objectives of the Fund are promoted through membership of the Local Authority Pension Fund Forum (LAPFF). As a LAPFF member the Fund allies itself with 89 other shareholders with combined assets of over £300 billion to influence key areas of responsible investment interest.

Fund engagement is crucial in relation to improving standards of corporate governance, which over the long term is expected to enhance investment returns. Details of the Fund's approach are set out in section 6 as well as the approach for the implementation of moving towards a zero carbon commitment as Appendix D.

The Fund's key responsible investment principles are set out below:

- Apply long term thinking to deliver long term sustainable returns.
- Seek sustainable returns from well governed and sustainable assets.
- Apply a robust approach to effective stewardship.
- Engagement through voting, meetings, and the LAPFF is a valuable tool to influence organisations in areas of responsible investment interest.
- Ensure that responsible investment is a core competency and skill to support decision making.
- Seek to innovate, demonstrate and promote responsible investment leadership and ESG best practice.
- Apply evidence based decision making in the implementation of responsible investment.
- Achieve improvements in ESG through effective partnerships with the London CIV and LAPFF.
- Share ideas and best practice to achieve wider and more valuable responsible investment outcomes.
- Be transparent and accountable in all Fund activities.
- Consider the costs of responsible investment decisions alongside fiduciary responsibilities.
- To continue with a structured, measured process of reducing with an aim of eliminating investments in fossil fuels.

Environmental, social and governance risks

The Fund may consider investments that have an explicit focus on delivering wider social and environmental impacts provided there is no risk of significant financial detriment to the Fund.

The Fund recognises the growing financial risks associated with investment in traditional energy sources and is fully committed to the achievement of carbon neutrality. The Fund commits to transferring any current investments in these traditional energy sources in a way that is both structured and affordable and also meets the Fund's fiduciary duties.

The Fund is committed to a process to achieve a neutral carbon footprint by 2030. This will be accomplished through a phased divestment and transfer of assets into reduced, low and zero carbon products.

Appendix D outlines the approach by which the Fund will achieve this objective, how the risks and other considerations associated with such a commitment will be managed and how the divestment will be incorporated into the asset allocation strategy for the Fund.

5. Approach to asset pooling

The Fund is a shareholder of the London Collective Investment Vehicle (CIV). The London CIV was created in 2015 and continues to progress the opening of a range of sub-funds for potential investment. As part of any future changes to investment strategy, the Fund will look first to the availability of appropriate investment products within the London CIV.

The transition of any assets into the pool will follow the normal due diligence process with consideration of: transition costs, fit with overall strategy, fees (direct and indirect), reporting arrangements, ESG requirements and, most importantly, expectations for future performance.

The Fund currently pays a contribution to London CIV for passive investments. This amounts to approximately £50,000 per annum. This fee arose from collective fee arrangements with the CIV, although these are not assets under management of the London CIV (value as at 30 June 2021 £1.07 billion, approximately 55% of the Fund).

The Fund has a target allocation of 20% of the assets to illiquid property and the cost of exiting these strategies early in favour of a CIV alternative would have a significant negative financial impact on the Fund.

6. Policy of the exercise of rights (including voting rights) attaching to investments

The Fund follows the principles of the UK Stewardship Code and exercises the voting rights attached to its investments wherever it is possible and cost effective to do so.

The aim is to promote and support good corporate governance principles and best practice. Voting rights should be exercised in accordance with the best financial interests of both the beneficiaries and contributors to the Fund. Environmental, social and ethical considerations may be taken into account when exercising votes where this acts in these parties' best interests.

Fund managers have been instructed to vote in accordance with their house policies and practices, whilst also taking into account the Combined Code on Corporate Governance. Where practical, managers should vote in line with the council's priority themes.

Fund managers report in advance of all voting rights they intend to exercise on behalf of the Fund. They provide details of their house view and on how they intend to vote. They ensure that this is consistent with the council's key themes and also with the LAPFF principles.
Fund managers' views are compared with the voting recommendations of LAPFF. Where the fund managers' house views are not consistent with those of LAPFF, the fund manager is instructed by the Fund to vote in line with the recommendations of the LAPFF.

Fund managers provide a quarterly report on corporate governance activity. This lists all votes which have been exercised and all engagement with companies which has taken place. It allows for checks to be carried out in order to ensure all the Fund's voting rights have been exercised in accordance with policy.

Myners Principles

The Government introduced a code in October 2001 based on the results of HM Treasury's review of institutional investment in the UK, carried out by Paul Myners. This code set out ten principles that were intended to improve the investment management of pension funds. These were updated in October 2008 and previously LGPS administering authorities were required to prepare, publish and maintain statements of compliance against a set of six principles within the Statement of Investment Principles. Although not specifically required by the Regulations the Fund sees the Myners Principles as a relevant governance tool and will continue to report on compliance.

The Fund is fully compliant with the six principles and Appendix C sets out the compliance statement.

Advice Taken

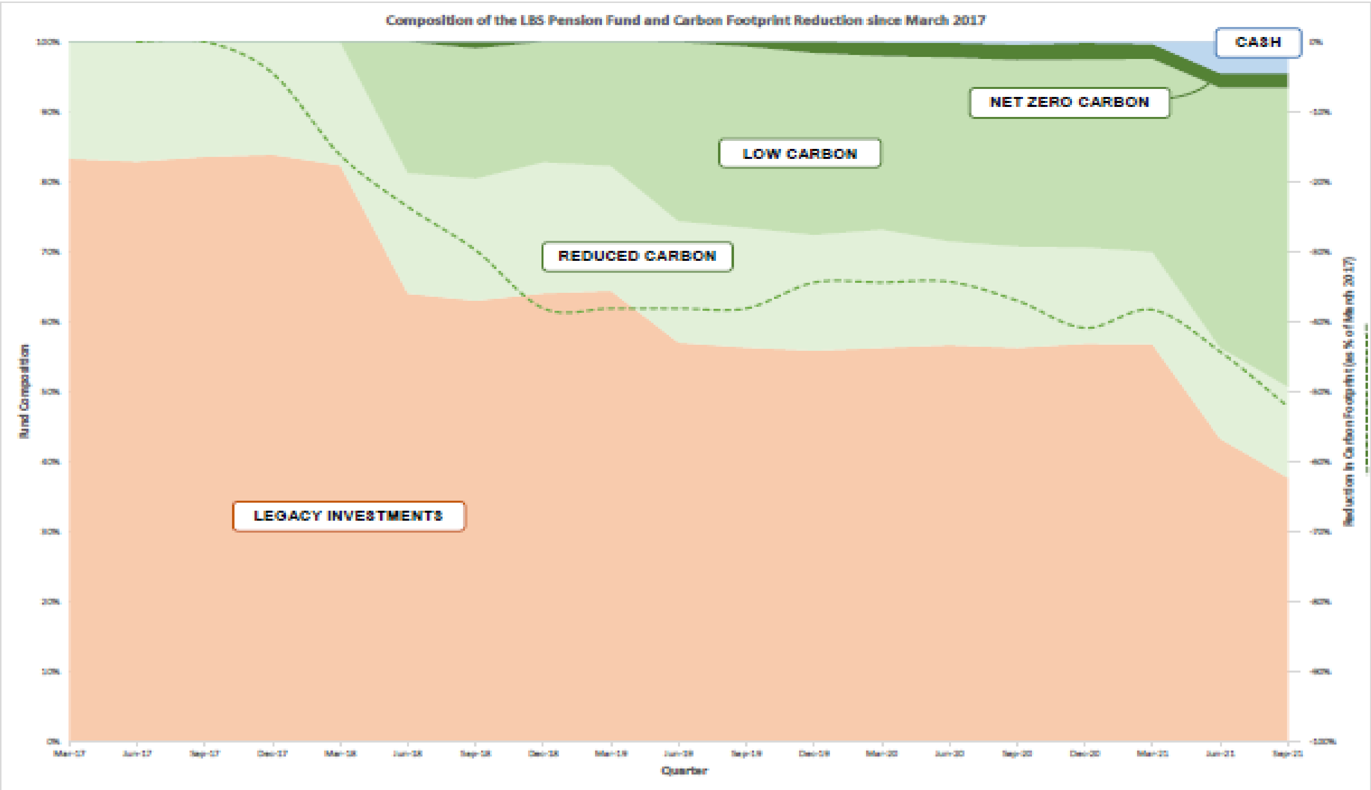
In creating this statement, the Fund has taken advice from its investment consultant, independent adviser and has sought the views of the Local Pension Board. Also, in relation to each of the constituent parts, such as the asset allocation and risk mitigation, advice has been taken from its investment consultant and scheme actuary Aon.

Appendix A – Current investment managers and mandates.

Manager	Mandate	Benchmark	Benchmark Weight (%)	Outperformance target (% p.a.)	Carbon Classification
BlackRock	Low carbon passive Global Equities	MSCI World Low Carbon Target Reduced Fossil Fuel Select Net Index	15.0	-	Low Carbon
BlackRock	Index Linked Gilts	FTSE UK Gilts Index-Linked over 5 Years Index	5.0	-	Non low carbon
BlackRock	Dynamic Diversified Growth Fund	LIBOR	10.0	+3.0% net of fees	Non low carbon
BlackRock	Absolute Return Bonds	LIBOR	5.0	+4.0% net of fees	Non low carbon
BlackRock	Sustainable Infrastructure	10% p.a. absolute return	1.5	-	Zero carbon
Legal & General	Low carbon passive Global Equities	MSCI World Low Carbon Target	15.0	-	Low carbon
Legal & General	Index Linked Gilts	FTSE Index-Linked Over 5 Years	5.0	-	Non low carbon
Newton	Global Equity	FTSE All World	10.0	+3.0% net of fees	Reduced carbon
Comgest	Active Emerging Market Equities	MSCI Emerging Markets – Net Return	5.0	-	Low carbon
Nuveen	Core Property	7.0% p.a. absolute return	14.0		Reduced carbon

Frogmore	Opportunistic Property	16.5% p.a. absolute return	1.5	-	Reduced carbon
Brockton	Opportunistic Property	15.0% p.a. absolute return	1.5	-	Reduced carbon
Invesco	PRS Property	8.5% p.a. absolute return	1.5	-	Reduced carbon
M&G	PRS Property	8.0% p.a. absolute return	1.5	-	Reduced carbon
Glennmont	Sustainable Infrastructure	10% p.a. absolute return	2.0	-	Zero carbon
Temporis	Sustainable Infrastructure	10% p.a. absolute return	1.5	-	Zero carbon
Temporis	Sustainable Infrastructure	11-12% p.a. absolute return	1.0	-	Zero carbon
Blackstone	Private Equity	12-14% p.a. absolute return	2.5	-	Reduced carbon
Darwin	Bereavement Services	6-8% p.a. absolute return	1.0	-	Reduced carbon
BTG Pactual	Timberland	12-14% p.a. absolute return	1.5	-	Zero carbon

Appendix B – Carbon Profile Allocation over Time



Appendix C

Myners Principles – Assessment of Compliance

1. Effective Decision-Making

Principle

Administering authorities should ensure that:

- Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and

- Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The Pensions Advisory Panel is supported by suitably qualified officers and external advisors. All members of the Panel are offered training on appropriate topics.

2. Clear Objectives

Principle

An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers and the attitude to risk of both the administering authority and scheme employers and these should be clearly communicated to advisors and investment managers.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The Fund's objectives are set out in the Investment Strategy Statement and the Funding Strategy Statement. The objective, benchmark and risk parameters are clearly stated in the Investment Management Agreements with each investment manager.

- Covenants of all scheme employers are reviewed on an ongoing basis.

3. Risk and Liabilities

Principle

- In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

- These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The asset allocation strategy is reviewed every three years. Aon is commissioned to carry out an asset liability study which models the risk/reward characteristics of different investment strategies.

- The study follows the triennial actuarial valuation and the form and structure of liabilities are fully taken into account.

4. Performance Assessment

Principle

- Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

- Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The Pensions Advisory Panel monitors the performance of the investment managers and the suitability of the investment strategy on a regular basis.

- Performance measurement is provided by JP Morgan and Aon.

- Assessment of the effectiveness of the administering authority is reflected through the effectiveness of the decision making in the investment returns achieved. Further, with the establishment of the Local Pensions Board, scrutiny of the Pensions Advisory Panel is now being undertaken.

- A procurement exercise was carried out in 2020-21 which resulted in the appointment of Aon as the fund’s investment advisors. They were appointed through the National

LGPS Frameworks and as such are subject to ongoing review at the framework level. Feedback is provided to the framework on an annual basis.

5. Responsible Ownership

Principle

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

- Include a statement of their policy on responsible ownership in the statement of investment principles.

- Report periodically to scheme members on the discharge of such responsibilities.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- The Fund has adopted the investment managers' policies on activism and each has adopted the Institutional Shareholders' Committee Statement of Principles. All investment managers adopt a policy of engagement with companies.

- The Fund's policy on responsible ownership is set out in its Investment Strategy Statement.

- Investment managers report on the exercise of voting rights and this is monitored by officers and the Pensions Advisory Panel to ensure consistency with the Fund's policy.

- The pension fund is a member of the LAPFF, the UK's leading collaborative shareholder engagement group.

- Responsible ownership is periodically reported to the Pensions Advisory Panel and states how active fund managers are discharging these responsibilities.

- A section on responsible ownership is included in the Pension Fund Annual Report and a member survey has been completed. These ensure that members are both provided with the relevant information and are able to input their views into the responsible ownership process going forward.

6. Transparency and Reporting

Principle

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

- Provide regular communication to scheme members in the form they consider most appropriate.

State of Compliance

The Fund is currently **fully compliant** with this principle:

- Documents relating to the Pension Fund are published on the pension fund website.

- The annual report sets out the arrangements during the year for the management of investment, governance and risks and other relevant information.

- Members can also request information directly from the council.

- The Pension Advisory Panel meeting papers are published on the council's website.

Investment Strategy Statement:
Appendix D

Southwark Pension Fund
Investment Strategy to Achieve Net Zero Carbon Exposure by 2030:
A Draft Approach

Introduction

The London Borough of Southwark Pension Fund is an open, defined-benefit pension fund as part of the national Local Government Pension Scheme. The nature of the Fund and scheme design means that payment of pensions will extend over the very long term.

In setting the investment strategy, the Fund seeks to balance twin objectives: first, to achieve sufficient long-term returns for the Fund to be affordable and second, to keep the employer contribution rate as stable as possible. These objectives must now be considered in the context of the global climate emergency and the need to reduce exposure to carbon investments, a key thrust to this strategy.

In this respect, the Fund seeks to operate a long term, sustainable strategy; one which does not rely upon the pursuit of short term returns but utilises a well-structured asset and fund manager investment allocation to target long term socially responsible, sustainable investment performance. The Fund avoids unnecessary complexity within its investment structure, appointing best in class managers within an asset class to achieve the strategic asset allocation. Having stronger relationships with a smaller number of managers provides significant flexibility and adaptability if required, but this will be challenged as the fund strives to reduce exposure to fossil fuels.

To achieve the twin objectives while reducing carbon exposure, the Fund needs to invest in a diverse range of assets, which provide higher returns relative to the growth of pension liabilities whilst taking account of the volatility inherent in investment markets. This will require additional resources, support and advice in order to deliver the positive outcomes being targeted. It will also require increasingly sophisticated management reporting for control and monitoring of performance.

As a long-term investor, with significant investment assets and pension liabilities the Fund must be comprehensive in the consideration and mitigation of risks that the portfolio faces. The Fund will base assessments of risk on future pension liabilities and contributions, will consider financial and non-financial risks, diversify investment assets in an appropriate manner, but also recognise the limits of that diversification.

The Net Zero Challenge

A developing risk to investment and to the Southwark fund is from exposure to fossil fuels. Extraction and combustion of fossil fuels generate significant carbon dioxide (CO_2) output. There is a growing scientific consensus[1] that continued CO_2 production will have a detrimental impact upon the earth's climate.

The Fund, through its diversified portfolio of investments, is exposed to assets where a portion of the market value is derived from current or future extraction and production of fossil fuels. Global and local regulatory restrictions on fossil fuel extraction and usage, in addition to changing consumer trends, may degrade the viability of fossil fuel extraction and usage. The value of investments in companies that derive much of their revenue or value from these resources would be at risk.

Recent Background

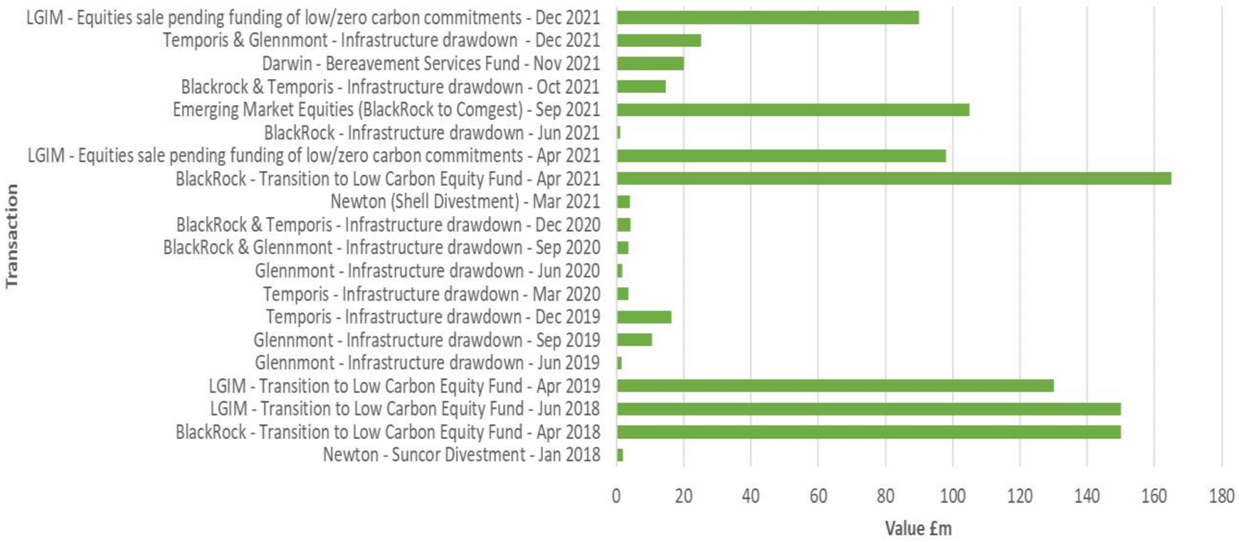
On 13 December 2016, after due consideration of the long term risk to the Fund; the Fund announced that investments in fossil fuel companies would be cut over the long term. This commitment was incorporated into the Investment Strategy Statement for the Fund published in March 2017 and updated in December 2021. Southwark is one of the first LGPS Funds to

[1] IPCC report, 'code red' for human driven global heating, warns UN chief / / UN News

make such a commitment and places the Fund at the forefront of sustainable fossil fuel aware investment.

The Fund recognises the growing financial risks associated with investment in traditional energy sources and is fully committed to transferring any current investments in these traditional energy sources in a way that is both structured and affordable and also meets the Fund's fiduciary duties.

The previous investment strategy committed to a reduction in exposure to fossil fuel generated significant CO_2 output. It was adopted in 2017 and has acted to counteract the risk to the Fund of investment exposure to fossil fuels, in line with other Fund responsibilities. In the period between 2017 and the adoption of the new strategy, the Fund's carbon exposure has reduced by 50%. When the previous strategy was agreed we set out a short, medium and long-term plan. Over the last four years significant progress has been made in transitioning investments exposed to fossil fuels to products with lower carbon exposure, as set out in the chart below:



Progress by Asset Class

The availability of suitable investment products, which meet the Fund's requirements, has influenced progress made within each asset class the Fund is invested in. This can be demonstrated by the fact that 100% of the Fund's holdings in equities had been transferred to low or reduced carbon investments by September 2021. In comparison, the Fund's defensive allocation, (15%) which includes investments in absolute return bonds and index linked gilts, remains in non-low carbon investments due to the lack of availability of suitable replacements. The progress to date by asset class is set out in detail below.

Equities

The Fund's holdings in passive developed market equities have been transitioned to passive low carbon equity funds. Emerging market passive equities have been switched to a new emerging market active equity strategic asset allocation. Investment has been made in the Comgest Global Emerging Markets Plus Fund, which demonstrates strong ESG credentials whilst maintaining performance targets. The Fund's active equities portfolio has divested from fossil fuel investments and a restriction has been placed on the portfolio preventing further investments in these companies or their industry peers.

The above changes have resulted in the Fund's 45% strategic allocation to equities now being entirely in low or reduced carbon holdings, whilst maintaining exposure to this asset class in a manner that continues to achieve the required level of risk and return.

New ESG Priority Allocation

A strategic allocation of 5% to alternative investments has been agreed. This allocation has both low carbon and strong ESG credentials. Commitments to three new investments have been approved within this allocation, with the majority expected to be invested by the end of March 2022. Commitments have been made with Blackstone Capital Holdings (private equity); Darwin Alternative Investment Management (bereavement services); and BTG Pactual Timberland Investment Group.

New Allocation to Sustainable Infrastructure

Following the agreement to allocate 5% of the Fund to this asset class, commitments have been made to investments in four funds that specifically include investments in solar and wind power technologies identified by the fund managers.

Measurement of Progress

During this time, it has been possible to test performance against our commitment through the use of carbon foot printing. We have developed our approach and made ongoing improvements. Further work is required as the market develops and there are improvements in the availability and accuracy of the measurement of carbon intensity data.

The Fund has increased in value from £1.5bn in September 2017 to over £1.9bn in March 2021. Performance has remained strong in the short to medium term with returns at March 2021 as follows: 1 year 24.4%, 3 years 9.6%, and 5 years 10.4%. The one-year return out-performed the average local authority return of 22.8% and the Fund has achieved top quartile performance in the longer term when compared to other local authorities.

These strong performance results give confidence in moving forward with a more definite plan to take the Fund to 2030. The Fund has reduced its carbon footprint by 50% during this time whilst maintaining investment performance. Looking forward there remains a conviction that strong investment performance can be delivered alongside reducing carbon exposure, and it is appropriate to move to the next stage of making further progress towards a net zero carbon commitment by 2030.

This document outlines how the Fund will approach this divestment, how the risks and other considerations associated with such a commitment will be managed and how the divestment will be incorporated into the asset allocation strategy for the Fund.

Transition to Net Zero Carbon Principles:

The overall approach of the Fund to incorporating wider environmental, social and governance issues (ESG) is set out in more detail within the Investment Strategy Statement.

This applies throughout the investment process from the initial investment to ongoing engagement and responsible stewardship of Fund assets.

This document will specifically address the Fund's principles for the transition to net zero carbon: The four key principles for divestment are set out below:

- Climate related risks and opportunities will be incorporated into the overall asset allocation strategy
- The commitment to reduction in fossil fuel investment is more than a long-term risk mitigation strategy.
- Divestment is not risk free.
- Engagement and local authority partnerships - LCIV

Principle 1: Incorporation into asset allocation strategy

The primary purpose of the Fund is to meet the pension benefits for the members of the Fund. Every three years the Fund undergoes an actuarial valuation, which estimates the value of pensions due to be paid to members. The result of which allows the Fund to review the asset and investment strategy in order to establish the most appropriate mix of assets to best achieve the required level of net of fees investment return on an appropriate risk adjusted basis, whilst ensuring diversity of assets, sufficient liquidity and appropriate governance of the investments.

The Fund will seek to fully integrate fossil fuel risk and opportunities into the investment strategy review process, from overarching asset allocation to individual investment choices. All investments will be considered through the lens of fossil fuel risk, but that any investment cannot be separated from the overall investment objectives for the Fund and must be subject to a full business case in consideration of the overall portfolio as well as fees and transition costs.

Principle 2: More than a long-term risk mitigation strategy

The Fund has a fiduciary duty to all the employers within the Fund and to the scheme members, and as such must manage the investment assets effectively with an investment time horizon in line with the liabilities for the Fund and have due regard to the investment risk inherent within the portfolio.

The Fund recognises the risk that fossil fuel investment places upon the Fund for future investment and as such, this document largely involves the desire to mitigate risk.

However, purely focussing upon those investments that are negatively exposed to the decline in profitability and viability of fossil fuel extraction and usage excludes a key consideration for the Fund; identifying those investments that are positioned to gain from such a transition.

The Fund therefore will proactively seek to identify suitable investments that fit within the overall asset allocation strategy and will be the beneficiaries from a low carbon regulatory and investment environment. The Fund will target both a downside risk mitigation strategy and a desire to invest in positive ‘green’ focussed assets.

Principle 3: Divestment is not risk free – Potential for negative implications

It is imperative that, as set out in Principle 2, the Fund must seek to incorporate fossil fuel considerations into the overarching investment strategy rather than seeking to separately implement fossil fuel risk mitigation approaches.

The Fund has long held a large portion of equity investments as passive (investments that are held in the same proportion as that of the market as a whole) with a current target allocation of 30%. This approach acknowledges the challenges and typically higher costs involved in seeking to predict future investment winners and losers. The inclusion of a fossil fuel risk mitigation strategy within this leads to a risk that in the short term the Fund may be negatively exposed to overall market returns if fossil fuel based investments outperform the wider market. Global usage of fossil fuels is still predicted to comprise a significant portion of global energy usage in years to come and as such, the Fund must be cognisant of the potential investment returns forgone should fossil fuel usage decline at a rate slower than the market has priced in.

There are additional management expenses within equity investment mandates that have some element of fossil fuel exclusion. As such the Fund must be confident that the additional risk from holding a portion of the Fund that is exposed to fossil fuels must be considered to be greater than the additional burden of higher management fees and any associated costs of transitioning assets from one mandate to another. The Fund works with its advisers and asset managers to ensure that there is no expected financial detriment associated with asset allocation shifts made to low carbon alternatives.

The measurement and assessment of which investments are most exposed to fossil fuels is not straightforward. Some companies may hold fossil fuel reserves or operations which are more damaging to the environment as a result of greater CO_2 output but that might be paradoxically less exposed to changing regulatory environment due to lower extraction costs. Companies not directly involved in the production or extraction of fossil fuel may derive significant portions of their revenue from fossil fuel companies. The Fund must ensure that any assessment of exposure to fossil fuels risk is sophisticated, and that investments are not distorted by inaccurate data.

Principle 4: Engagement and Local Authority Partnerships - LCIV

There is growing appreciation of the growing risks and opportunities that pension funds face from the transition away from traditional fossil fuel usage, including among Local Government Pension Funds. Where appropriate, it is important that the Fund works with other Local Authority partners to share knowledge and best practice as well as utilising collective assets to push for the most effective and efficient implementation of reduced fossil fuel strategies.

The Fund will work with local authority partners as well as the LCIV, the pooled investment vehicle of which the Fund is a shareholder and active supporter, in the application of this commitment. The Fund will also seek to be an active voice in the investment community for the advancement of investment outside of fossil fuels.

Timeline:

The Fund's implementation period to achieve net zero carbon is split into three main time horizons, encompassing short, medium and long-term objectives.

- The short term: one-four years (2022-2026)
- The medium term: five-seven years (2027-2029)
- The long term: year eight (2030)

Given the difficulty in predicting the global investment and technological environment in addition to Fund specific liability and investment requirements, longer-term periods will likely be subject to significant variability and uncertainty.

Short Term – From 2022 to 2026

Triennial Actuarial Valuation and Investment Strategy Review

- The short term will incorporate the results of the 2022 and 2025 triennial actuarial valuations. The Fund will publish the results of the 2022 actuarial valuation in March 2023, the results of which will be the foundation for the subsequent investment strategy review. The asset allocation review aims to ensure that the current investment allocation is appropriate to meet the required investment return to fund future pensions within a suitable risk profile. Where investment underperformance is identified or risk profile changes, either across an asset class or manager specific, any subsequent reallocation will be considered with regard to overall fossil fuel exposure.

Local Authority Collaboration and Pooling

- It is important that the Fund works together with other likeminded local authority partners, in order to develop suitable fossil fuel reduction opportunities. Collaboration will also seek to mitigate some of the fee and transition cost implications of changing investment allocation.
- The Fund will engage with the LCIV through representation by officers and members on key LCIV governance panels to push for the availability of reduced fossil fuel investment mandates within the LCIV.

Fund Managers

- Re-allocation of investments from opportunistic property as these funds reach the end of their life cycles.
- Initial review of direct property holdings, with any necessary action being taken in the medium term.
- Low carbon passive equity investments will be moved to zero carbon alternatives, subject to the availability of products. The transition of these assets will take place in a phased manner with up to 50% being transferred in the short term and the remainder in the medium term once performance of these new investments has been reviewed.
- Active equity mandate to be assessed against zero carbon target and if not achieved move to new zero carbon mandate.
- Seek alternatives to replace the holdings in the defensive allocation which currently includes index linked gilts and absolute return bonds. Replacements will be required to either be low or zero carbon, whilst providing an equivalent level of risk and serving the same purpose within the asset allocation. It is recognised that if suitable products are not available in the short term, further review of this allocation may be required in the medium to long term.
- Initial review of the Fund’s diversified growth holding in terms of its continuing suitability within the strategic asset allocation, whilst also identifying suitable low or zero carbon replacements.
- Review performance of holding in the Comgest Global Emerging Markets Plus Fund in terms of both performance against benchmark and carbon emissions.

- Consolidate new mandates allocated in 2021-22. (These include Comgest Global Emerging Markets Plus Fund, Blackstone Strategic Capital Holdings II, Temporis Impact V Fund, Darwin Bereavement Services Fund; and BTG Pactual Timberland Fund).
- Assess carbon objectives in the context of the results of the 2022 and 2025 triennial actuarial valuations.
- The Fund will use this period to identify developments in low and zero carbon equity investments being brought to the market and the opportunities they present to the Fund in its journey to achieving net zero carbon.
- A formal update and refresh of the investment strategy will take place in 2026.

General

- The Fund will continue to develop and improve its approach to the measurement of its carbon footprint to ensure it is kept current and accurate. This will be a key metric in monitoring progress towards achieving net zero carbon. We will work with fund managers and data providers to establish actual data which will replace proxies. All new investment products that the Fund invests in will be required to provide the Fund with regular data on their carbon intensity.
- Develop enhanced carbon measurement for property investments and review the management and monitoring of carbon in the property allocation.
- The Fund will lobby the fund management industry for the introduction of new products that meet our objectives.
- The Fund will continue to support the work of the Local Authority Pension Fund Forum (LAPFF) as representing 90 local authority pension funds in their engagement with companies to promote best practice climate aware business activities
- Any changes to investment allocations will need to be communicated with key advisers, such as the Fund actuary, as well as the Fund's external auditors.
- The Fund will engage with the investment advisers who support the Fund in monitoring and engaging with buy-rated investment strategies held outside of the LCIV.

Medium Term – From 2027 to 2029

Triennial Actuarial Valuation and Investment Strategy Review

- The medium term will incorporate the results of the 2028 triennial actuarial valuation and will constitute a key point for major review of assets and investments to ensure that these are best placed to meet the payment of benefits to members of the scheme. Fossil fuel risks and opportunities will be incorporated in the consideration for any amendments to the asset allocation strategy.
- The carbon footprint will be re-calculated quarterly and incorporated into the overall portfolio risk assessment.

Local Authority Collaboration and Pooling

- The Fund is committed to working with the LCIV and will seek to comply with the government requirements for pooled investments. The Fund will continue to seek to exert influence over the strategic direction of the available investments within the LCIV, alongside other local authority partners, to ensure that these are appropriate for the sustainable strategy that the Fund wishes to implement. The opportunity for reduced fossil fuel or sustainable investment in multi asset mandates will likely develop as part of continued engagement between the Fund and other likeminded members of the LCIV.

Fund Managers

- Continued engagement with fund managers to ensure that fossil fuel risks and opportunities are consistently and appropriately taken into consideration throughout the decision making process.
- Review of private residential holdings within the Fund in terms of their continuing suitability within the investment strategy and their contribution to the Fund’s zero carbon targets.
- Review of direct property investments to seek zero carbon options. This will be subject to availability of zero carbon investments in the commercial property sector and also the satisfactory performance of markets to avoid crystallisation of losses, thereby protecting the value of the Fund. If it is not possible to achieve zero carbon within this asset class suitable alternative asset classes, which meet the Fund’s strategic requirements, will be identified as a replacement.
- Balance of low carbon passive equities will be moved to zero carbon equivalents. This will be subject to satisfactory performance of assets transferred in the short term and the availability of suitable investment products in this asset class.
- Complete the migration of the current diversified growth, index linked gilts and absolute return bond holdings into reduced and zero carbon products.
- Further review of holding in the Comgest Emerging Markets Plus Fund, with action being taken if investment performance or zero carbon targets are not being achieved.

- Formal review of the performance of the zero carbon sustainable infrastructure investments and maintenance of the pipeline of commitments to maintain the strategic allocation to this asset class. Make adjustments to holdings in this asset class if necessary.
- Review the performance and carbon emissions of the reduced carbon private equity holding with Blackstone. Make adjustments if required, subject to the availability of alternatives.
- Review the holding in the Darwin Bereavement Services Fund and consider suitable replacements if performance and carbon targets are not being achieved.

General

- The Fund will continue a policy of engaging with companies through membership of the LAPFF and the LCIV to encourage companies to adopt the highest of standards with regard to fossil fuels and energy efficiency.
- The measurement of the Fund's carbon footprint will include advanced metrics which will measure progress towards the Fund's net zero carbon targets. The use of scenario analysis will facilitate the Fund to understand where it could be by 2030 based on its current investment strategy, planned changes, and alternative investment strategies and asset allocations. This will enable action to be taken in the medium to long term, to identify holdings which cannot continue to be held in the strategic asset allocation, ensuring that the 2030 target is achieved. An assessment of the Fund's alignment with the Paris Agreement will be conducted providing temperature scores of the portfolio. This will also provide useful information for decision-making.
- The Fund will continue to lobby the fund management industry to encourage the development of new zero carbon investment products.
- A survey of scheme members will be conducted which will include scheme governance, administration and investments. The results will be considered when assessing actions to be taken over the long term.

<u>Long Term: 2030</u>

Triennial Actuarial Valuation and Investment Strategy Review

- The Fund will continue to assess the overall investment strategy as required to meet the pension benefits for members. As and when asset and manager allocations require amending, the risk of fossil fuel exposure will be incorporated into any due diligence regarding risk and reward decision making.

Local Authority Collaboration and Pooling

- In the long term, the Fund may be required to invest the majority of its assets through the LCIV, depending on government requirements for pooling of assets. The availability of suitable opportunities within the LCIV will be key for the continued reduction in fossil fuel investments as well as positioning the Fund to benefit from clean technology and low carbon industries. This will allow the Fund to invest across a variety of disparate asset classes without compromising the ambition to be a long-term sustainable investor.

Fund Managers

- All investments in the Fund will be reviewed to identify any remaining allocations which are not at least low carbon, with the majority now being zero or negative carbon. Investments that do not meet this criterion will be transitioned to suitable alternative products. As with the short and medium term, this will be subject to the ongoing availability of investment products that meet the Fund's risk and return requirements.
- Final tuning to complete carbon neutral objectives.
- Final application of negative carbon offsets from the Fund's sustainable infrastructure holdings.
- Review carbon emissions performance of private equity holding.
- The activity required at this stage will depend on progress made in earlier years towards ensuring the majority of the Fund's investments are, as a minimum, low carbon.

General

- The Fund will have fully incorporated fossil fuel risk, through regular and sophisticated monitoring and portfolio analysis into the investment decision-making process. Carbon reduction targets as part of the overall portfolio will play a key role in achieving the net zero carbon target by 2030.

Item No. 10	Classification: Open	Date: 22 December 2021	Meeting Name: Pensions Advisory Panel
Report title:		Pension Fund Statement of Accounts & Audit Findings Report 2020-21	
From:		Senior Finance Manager, Treasury and Pensions	

Recommendations

The PAP is asked to:

- Note the attached Pension Fund Statement of Accounts for the financial year 2020-21 as Appendix A.

- Note the draft Pension Fund Audit Findings report as issued by Grant Thornton as Appendix B.

Background Information

1. The pension fund statement of accounts for 2020-21 was submitted for audit by the 31 May 2021 statutory deadline, with the pension fund annual report following in November 2021.

2. Grant Thornton completed additional work this year including a hot review of the pension fund accounts. This was conducted by a technical team separate from the team auditing the accounts and resulted in additional queries and information requests during the course of the audit. Following the completion of the hot review, recommendations were agreed on improvements to the narrative in the notes to the accounts.

Audit Opinion

3. The audit of the pension fund is almost complete. It was delayed due to resource issues at Grant Thornton.

4. Grant Thornton has confirmed the intention is to grant an unqualified opinion on the council and pension fund statement of accounts. The draft findings report by Grant Thornton on the pension fund statement of accounts is attached as Appendix B.

5. The purpose of Grant Thornton's Audit Findings Report (AFR) is to detail their findings and matters arising during the course of auditing the financial statements. As part of the audit, a small number of

minor presentational issues were identified. No adjustments to the pension fund's overall reported financial position has been required.

6. At the time of writing this report, the audit opinion is expected by 17 December.

Community, Equalities (including socio-economic) and Health Impacts

7. **Community Impact Statement**

No immediate implications arising.

8. **Equalities (including socio-economic) Impact Statement**

No immediate implications arising

9. **Health Impact Statement**

No immediate implications arising

10. **Climate Change Implications**

No immediate implications arising

11. **Resource Implications**

No immediate implications arising

12. **Legal Implications**

No immediate implications arising

13. **Financial Implications**

No immediate implications arising

14. **Consultation**

No immediate implications arising

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Caroline Watson, Senior Finance Manager	
Version	Final	
Dated	14 December 2021	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		15 December 2021

PENSION FUND

2020-21

LONDON BOROUGH OF SOUTHWARK PENSION FUND STATEMENT OF ACCOUNTS

FUND ACCOUNT

	Note	2020-21		2019-20	
		£000	£000	£000	£000
Dealings with members, employers and others directly involved in the fund					
Contributions	6	(60,237)		(55,151)	
Transfers in from other pension funds	7	(9,475)		(10,636)	
Subtotal			**(69,712)**		**(65,787)**
Benefits	8	61,446		59,692	
Payments to and on account of leavers	9	6,134		11,692	
Subtotal			**67,580**		**71,384**
Net reduction/(addition) from dealing with members of the fund			**(2,132)**		**5,597**
Management expenses	10		10,838		8,881
Net additions plus management expenses			**8,706**		**14,478**
Returns on investments					
Investment income	11	(13,175)		(15,578)	
Taxes on income	11	539		291	
Profit and losses on disposal of investments and changes in market value of investments	12	(363,153)		61,254	
Net return on investments			**(375,789)**		**45,967**
Net (increase)/decrease in the net assets available for benefits during the year			**(367,083)**		**60,445**
Opening net assets of the scheme			(1,581,541)		(1,641,986)
Net assets of the scheme available to fund benefits as at 31 March			**(1,948,624)**		**(1,581,541)**

NET ASSETS STATEMENT

	Note		31 March 2021 £000		31 March 2020 £000
Investment assets	12		1,928,101		1,542,755
Current assets	13		24,693		44,238
Current liabilities	13		(4,170)		(5,452)
Net assets of the scheme available to fund benefits as at 31 March			**1,948,624**		**1,581,541**

The fund’s financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The estimated actuarial present value of promised retirement benefits is disclosed at note 19.

NOTES TO THE PENSION FUND STATEMENTS

1.INTRODUCTION

The Pension Fund (the fund) is part of the Local Government Pension Scheme (LGPS) and is administered by Southwark Council (the council).

The following description of the fund is a summary only. For more detail, reference should be made to the pension fund annual report and the underlying statutory powers underpinning the scheme, namely the Public Service Pension Act 2013 and the LGPS Regulations.

a) General

The scheme is governed by the Public Service Pension Act 2013. The fund is administered in accordance with the following secondary legislation:
- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

It is a contributory defined benefit scheme that provides pensions and other benefits for former employees of the council and other admitted organisations.

The overall investment strategy is the responsibility of the council as the administering authority of the fund. This responsibility is delegated to the Strategic Director of Finance and Governance, taking account of the advice of the pensions advisory panel. In line with the provisions of the Public Services Pensions Act 2013, the council has set up a local pension board to assist the council in its role as scheme manager of the Pension Fund. The board meets on a quarterly basis and has its own terms of reference. Board members are independent of the pensions advisory panel.

b) Membership

Membership of LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside of the scheme.

Organisations participating in the fund include:

- Scheduled bodies, which are largely academies and similar bodies whose staff are automatically entitled to be members of the fund
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

A list of participating organisations and their contributions for the financial year is included within the pension fund annual report. This is available from the council website.

	31 March 2021	**31 March 2020**
Number of contributors to the fund	7,126	6,888
Number of contributors and dependants receiving allowances	7,988	7,887
Number of contributors who have deferred their pensions	9,883	10,932

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employee contributions are matched by employers’ contributions, which are set in accordance with the triennial actuarial funding valuations, the last being at 31 March 2019. For the 2020-21 financial year primary employer contribution rates ranged from 7.3% to 18.4% of pensionable pay, plus additional deficit payments where appropriate.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014 the scheme became a career average scheme.

	Service pre 1 April 2008	**Service post 31 March 2008**	**From 1 April 2014**
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is accrued at 1/49 of pensionable pay for the year
Lump sum	Automatic lump sum of 3 x pension. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	

In June 2020 the pension fund made a self-declaration to the Pensions Regulator with regard to the late processing of pension uplifts due to a payroll issue. The issue was resolved and all increases and arrears were paid in July 2021.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the fund's transactions for the 2020-21 financial year and its position at year-end as at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

a) Contributions income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis. The employer payroll contribution percentage rates are set by the fund based on advice of the fund actuary. Employee rates are set in Regulations.

Deficit funding contributions as advised by the fund actuary are accounted for on an accruals basis.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Scheme Regulations. Individual transfers in or out are accounted for when received or paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in. Bulk group transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current investment asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current investment asset. Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits and or losses during the year.

d) Fund account – benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Fund account – taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the council discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

All administrative expenses are accounted for on an accruals basis. All staff costs of pensions administration are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

All investment management expenses are accounted for on an accruals basis. Fees for the fund managers and custodian are agreed in the respective mandates governing their appointments and are based broadly on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Net Asset Statement

g) Financial assets

Investment assets are included in the net assets statement on a fair value or amortised cost basis as at the reporting date. Cash held by fund managers and the funds own cash are at amortised cost.

A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the fund. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13. Details of the basis of valuation and disclosure levels within the fair value hierarchy are provided at note 13.

Foreign currency transactions have been brought into the accounts at the exchange rate that was in force when the transaction took place.

h) Freehold and leasehold property

Property assets have been included in the accounts at fair value as at 31 March each year. The valuation of direct property managed by Nuveen is carried out annually by an independent valuer.

i) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes. The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

k) Financial liabilities

The fund recognises financial liabilities at fair value or amortised cost as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts (note 19).

m) Additional voluntary contributions

The fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. AVC assets are not included in the accounts but are disclosed as a note (note 6).

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies in Note 3 the council has had to make critical judgements about complex transactions and those involving uncertainty about future events. There were no such critical judgements made during 2020-21.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The statements contain estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, as balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The pension fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 20. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations, as indicated in the table below.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of retirement benefits	This applies to the estimation of the net liability to pay pensions, which depends upon a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	The approximate impact of changing the key assumptions on the present value of retirement benefits are: - an 0.1% change in the discount rate would be +/- £51m - an 0.1% change in the rate at which salaries are projected to increase would be +/- £5m - an 0.1% change in the rate of pension increase would be +/- £47m - a one year change in mortality assumptions would be +/- £94m
Freehold and leasehold property and pooled property	Valuation techniques are used to determine the carrying amount of pooled property funds and directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, but where this is not possible, management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property.	The effect of variations in the factors supporting the valuation, estimated to be 7% would be an increase or decrease in the value of property of £18m, on a fair value of £255m.

6. CONTRIBUTIONS RECEIVABLE

Contributions represent the total amount receivable from employees and employers of the scheme.

	2020-21			2019-20		
	Employees £000	**Employers £000**	**Total £000**	**Employees £000**	**Employers £000**	**Total £000**
Southwark council	(12,463)	(42,334)	(54,797)	(11,904)	(38,308)	(50,212)
Admitted bodies	(315)	(884)	(1,199)	(270)	(805)	(1,075)
Scheduled bodies	(1,229)	(3,012)	(4,241)	(1,128)	(2,736)	(3,864)
Total	**(14,007)**	**(46,230)**	**(60,237)**	**(13,302)**	**(41,849)**	**(55,151)**

Contributions receivable from employers are shown below:

	2020-21 £000	2019-20 £000
Normal	(36,416)	(29,475)
Early retirement strain	(2,221)	(356)
Deficit funding	(7,593)	(12,018)
Total contributions from employers	**(46,230)**	**(41,849)**
Contributions from employees	(14,007)	(13,302)
Total	**(60,237)**	**(55,151)**

During 2020-21 employees made additional voluntary contributions (AVCs) of £0.3m (£0.3m in 2019-20). The value of the AVCs at 31 March 2021 was £3.6m (£2.8m at 31 March 2020).

7. TRANSFERS IN FROM OTHER PENSION FUNDS

Transfers in from other pension funds were as follows:

	2020-21 £000	2019-20 £000
Individual transfers	(9,475)	(10,636)
Total	**(9,475)**	**(10,636)**

8. BENEFITS PAYABLE

The table below shows the types of benefit payable by category:

	2020-21 £000	2019-20 £000
Pensions	53,003	50,347
Commutation of pensions and lump sum retirement benefits	7,147	8,108
Lump sums - death benefits	1,296	1,237
Total	**61,446**	**59,692**

The table below shows the total benefits payable grouped by entities:

	2020-21 £000	2019-20 £000
Southwark council	58,722	56,682
Admitted bodies	2,106	2,049
Scheduled bodies	618	961
Total	**61,446**	**59,692**

9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2020-21 £000	2019-20 £000
Refund of contributions	121	430
Individual transfers out to other schemes	6,013	11,262
Total	**6,134**	**11,692**

10. MANAGEMENT EXPENSES

	2020-21 £000	2019-20 £000
Administrative costs	3,690	2,677
Investment and management expenses	6,661	5,632
Oversight and governance costs	487	572
Total	**10,838**	**8,881**

The 2020-21 fee for external audit services for the pension fund is £36,170 (£32,396 in 2019-20). Revised fees for both 2019-20 and 2020-21 are as agreed with the external auditor and the Public Sector Audit Appointments Ltd (PSAA).

The Pension Fund incurred expenses of £0.9m in relation to services provided by the council during 2020-21 (£0.9m during 2019-20).

The table below provides an analysis of investment and management expenses by fund manager:

	2020-21			2019-20		
	Fees £000	Transaction costs £000	Total £000	Fees £000	Transaction costs £000	Total £000
Nuveen	626	3,139	3,765	1,243	1,618	2,861
Newton Investment Management	1,038	-	1,038	1,019	-	1,019
BlackRock	702	-	702	473	-	473
Brockton Capital LLP	144	214	358	59	-	59
M and G Real Estate	205	-	205	201	-	201
London collective investment vehicle	205	-	205	89	-	89
Invesco Real Estate	158	-	158	167	-	167
Frogmore Real Estate Partners	65	-	65	130	-	130
Legal and General Investment Managers	53	-	53	73	-	73
Glenmont	-	-	-	470	-	470
Temporis	-	-	-	7	-	7
	3,196	**3,353**	**6,549**	**3,931**	**1,618**	**5,549**
Custody costs			112			83
Total			**6,661**			**5,632**

Performance fees in 2020-21 were nil (nil in 2019-20). Transaction costs include property management expenses.

11. INVESTMENT INCOME

	2020-21 £000	2019-20 £000
Dividends from equities	(4,278)	(4,533)
Income from pooled investment vehicles	(1,061)	(1,963)
Rent from properties	(7,814)	(9,069)
Interest on cash deposits	(22)	(13)
Total before taxes	**(13,175)**	**(15,578)**
Taxes on income	539	291
Total after taxes	**(12,636)**	**(15,287)**

12. INVESTMENT ASSETS

	31 March 2021 £000	31 March 2020 £000
Bonds		
Quoted overseas	-	6,177
Equity		
Quoted UK	34,648	25,195
Quoted overseas	198,877	140,725
Pooled Funds		
Fixed income overseas	135,739	120,788
Index linked gilts UK	159,852	153,575
Multi asset overseas	192,740	163,023
Unitised Insurance Policy		
Equity overseas	907,070	651,416
Property		
Direct property UK	187,470	189,550
Property unit trust UK	67,784	56,420
Infrastructure	41,247	31,803
Derivatives		
Forward currency contracts	-	222
London collective investment vehicle	150	150
Other investment balances	2,524	3,711
Total	**1,928,101**	**1,542,755**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year. The table below shows the movement in investment assets and the change in market value for the year:

	Opening balance	Purchases	Sales	Change in market value	Cash movement	Value as at 31 March 2021
	£000	£000	£000	£000	£000	£000
Bonds	6,177	8,731	(14,642)	(266)	-	-
Equity	165,920	54,707	(48,963)	61,861	-	233,525
Pooled funds	437,386	(11,563)	(8,658)	71,166	-	488,331
Unitised insurance policy	651,416	31,785	(11,040)	234,910	-	907,070
Property	245,970	19,777	(5,523)	(4,970)	-	255,254
Infrastructure	31,803	10,549	(2,031)	926	-	41,247
Derivatives	222	1,051	(799)	(474)	-	-
London collective investment vehicle	150	-	-	-	-	150
Other investment balances	3,711	-	-	-	(1,187)	2,524
Total	**1,542,755**	**115,037**	**(91,656)**	**363,153**	**(1,187)**	**1,928,101**

	Opening balance	Purchase	Sales	Change in market value	Cash movement	Value as at 31 March 2020
	£000	£000	£000	£000	£000	£000
Bonds	7,700	32,410	(34,393)	460	-	6,177
Equity	172,401	52,712	(47,120)	(12,073)	-	165,920
Pooled funds	441,856	383	-	(4,853)	-	437,386
Unitised insurance policy	716,671	122,200	(151,564)	(35,891)	-	651,416
Property	290,129	6,182	(41,289)	(9,052)	-	245,970
Infrastructure	-	32,454	(426)	(225)	-	31,803
Derivatives	90	3,101	(3,349)	380	-	222
London collective investment vehicle	150	-	-	-	-	150
Other investment balances	2,248	-	-	-	1,463	3,711
Total	**1,631,245**	**249,442**	**(278,141)**	**(61,254)**	**1,463**	**1,542,755**

The Pension Fund does not hold derivatives as a main asset class, but they are used by Newton Investment Management, the council's active equity fund manager, to hedge the currency risk of holding global equities. The currency forward contracts are traded over the counter.

The valuation of direct property managed by Nuveen is carried out by Knight Frank LLP. The valuer is RICS qualified and the valuation took place on 31 March 2021. All properties have been valued at market value.

The investment strategy statement can be accessed on the council's website. Alternatively a copy can be obtained on request from the Strategic Director of Finance and Governance, Southwark council, finance and governance, PO Box 64529, London SE1P 5LX.

The following investments represent more than 5% of investment assets at 31 March 2021.

Name of investment	Fund manager	31 March 2021	% of investment assets	31 March 2020	% of investment assets
		£000	%	£000	%
Low Carbon Target	Legal and General	365,710	19%	263,047	17%
Diversified Growth Fund	BlackRock	192,740	9%	163,023	11%
Low Carbon Target	BlackRock	167,117	9%	123,200	8%
Absolute Return Bond Fund	BlackRock	135,739	7%	120,788	8%
US Equity Fund	BlackRock	107,691	6%	77,284	5%

The market value of assets (excluding cash and accruals) managed by the investment managers at the balance sheet date 31 March 2021 has been set out in the table below.

	31 March 2021		31 March 2020	
	£000	%	£000	%
BlackRock	852,375	44%	673,584	44%
Legal and General Investment Managers	546,514	27%	415,217	27%
Nuveen	189,772	13%	195,651	13%
Newton Investment Management	233,526	11%	172,320	11%
M and G Real Estate	22,421	1%	22,358	1%
Invesco Real Estate	30,271	1%	14,953	1%
Glennmont	13,940	1%	11,700	1%
Temporis	23,818	1%	20,103	1%
Frogmore Real Estate Partners	7,365	1%	8,822	1%
Brockton Capital LLP	5,425	0%	4,186	0%
London collective investment vehicle	150	0%	150	0%
Total	**1,925,577**	**100%**	**1,539,044**	**100%**

13. CURRENT ASSETS AND LIABILITIES

The current assets of the fund are analysed as follows:

	31 March 2021 £000	31 March 2020 £000
Contribution due from employers	5,789	1,116
Other current assets	3,149	2,717
Cash at managers	10,568	18,448
Cash and bank	5,187	21,957
Total	**24,693**	**44,238**

The current liabilities of the fund are analysed as follows:

	31 March 2021 £000	31 March 2020 £000
Benefits	-	(15)
Professional fees	(1,964)	(2,283)
Investment	(1,518)	(2,072)
Taxes	(687)	(604)
Other	(1)	(478)
Total	**(4,170)**	**(5,452)**

14. RELATED PARTY TRANSACTIONS

The Pension Fund is required to disclose details of its financial relationship with related third parties. This has been defined as relationships that might materially prevent the fund from pursuing its separate interests or that might allow the fund to prevent another party from pursuing its interests independently, with material effect for the fund.

Through its administration of the fund, the fund has a related party interest with the council. The council charged the fund £0.9m in 2020-21 (£0.9m in 2019-20). Management of the Pension Fund is the responsibility of the council's Strategic Director of Finance and Governance and a small proportion of the costs of this post were apportioned to the fund in 2019-20 and 2020-21.

No officers' remuneration is paid directly by the fund; costs are instead recovered as part of the costs disclosed in note 10.

The pension advisory panel (PAP) offers advice to the Strategic Director of Finance and Governance. Councillor members of the PAP make an annual declaration of their interests which is available on the council's website.

The council is also the single largest employer of members of the Pension Fund and contributed £42.3m to the fund in 2020-21 (£38.3m in 2019-20).

15. FAIR VALUE HIERARCHY

The valuation of financial instruments has been classified into three levels in accordance with IFRS 13, according to the quality and reliability of information used to determine fair values.

Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 are those where at least one input that could have a significant effect on the instruments valuation is not based on observable market data.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and options in UK bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled investments – overseas unit trusts and some property funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	Net assets value (NAV) based pricing set on a forward pricing basis	Not required
Freehold, leasehold properties	Level 3	Valued at fair value at the year-end by independent valuers	Existing lease terms and rentals; Independent market research; Nature of tenancies; Covenant strength for existing tenants; Assumed vacancy levels; Estimated rental growth; Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Infrastructure funds	Level 3	Valued at fair value as provided by the fund manager	Purchase price at acquisition for newer or non-operational assets, estimated cash flows, government price support	Market prices and cash yields, government policies on energy subsidies, pace of shift to renewable and clean energy, discount rates

The following table shows the fair value valuation hierarchy of fund assets and liabilities.

Value as at 31 March 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	1,300,447	328,629	109,031	**1,738,107**
Non-financial assets at fair value through profit and loss	-	-	187,470	**187,470**
Total	**1,300,447**	**328,629**	**296,501**	**1,925,577**

Value as at 31 March 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	977,310	283,961	88,223	**1,349,494**
Non-financial assets at fair value through profit and loss	-	-	189,550	**189,550**
Total	**977,310**	**283,961**	**277,773**	**1,539,044**

The following table shows the reconciliation of fair value measurements within level 3.

	Opening balance £000	Purchase £000	Sales £000	Realised gain/(loss) £000	Unrealised gain/(loss) £000	Value as at 31 March 2021 £000
Property	245,970	19,777	(5,523)	3,098	(8,068)	**255,254**
Infrastructure	31,803	10,549	(2,031)	(260)	1,186	**41,247**
Total	**277,773**	**30,326**	**(7,554)**	**2,838**	**(6,882)**	**296,501**

	Opening balance £000	Purchase £000	Sales £000	Realised gain/(loss) £000	Unrealised gain/(loss) £000	Value as at 31 March 2020 £000
Property	290,129	6,182	(41,289)	5,001	(14,053)	**245,970**
Infrastructure	-	32,454	(426)	-	(225)	**31,803**
Total	**290,129**	**38,636**	**(41,715)**	**5,001**	**(14,278)**	**277,773**

Sensitivity of assets valued at level 3

Having analysed historical data, information received from valuers and the valuation techniques of fund managers, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges:

Value as at 31 March 2021	**Assessed valuation range**	**Valuation as at 31 March 2021 £000**	**Value on increase £000**	**Value on decrease £000**
Property	7%	255,254	273,122	237,386
Infrastructure funds	5%	41,247	43,310	39,185
Total		**296,501**	**316,432**	**276,571**

16. FINANCIAL INSTRUMENTS

The following table shows the classification of the Pension Fund's financial instruments:

	31 March 2021 £000	**31 March 2020 £000**
Financial assets		
Fair value through profit and loss	1,738,105	1,349,494
Amortised cost	21,429	46,833
Financial liabilities		
Amortised cost	(4,170)	(5,452)
Total	**1,755,364**	**1,390,875**

17. CONTINGENT LIABILITIES AND CONTRACTUAL ARRANGEMENTS

Outstanding capital commitments (investments) at 31 March 2021 totalled £65.6m (31 March 2020: £76.8m).

These commitments relate to outstanding call payments due on property and infrastructure funds. The amounts 'called' by these funds are irregular in both size and timing over a number of years from the date of each original commitment.

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The Pension Fund’s primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund’s forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Strategic Director of Finance and Governance advised by the pensions advisory panel. Risk management policies are established to identify and analyse the risks faced by the council’s pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund’s risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the council and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All security investments present a risk of a loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The fund’s investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the fund investment strategy.

Potential price changes are determined based on historical data and volatility of asset class returns. For example, ‘riskier’ assets such as equities will display greater potential volatility than bonds. The following table demonstrates the change in the net assets available to pay benefits, if the market price had increased or decreased. In consultation with the fund’s investment advisers, the council has determined that the following movements in market price risk are reasonably possible:

2020-21 - asset type	31 March 2021 £000	Change %	Value on increase £000	Value on decrease £000
Total equities	1,140,745	13%	1,290,923	990,567
Total bonds and indexed linked	295,591	6%	312,883	278,299
Multi-asset	192,740	6%	204,316	181,164
Alternatives	41,247	3%	42,480	40,014
Property	255,254	2%	260,970	249,538
Other assets	2,524	0%	2,524	2,524
Total	**1,928,101**			

2019-20 - asset type	31 March 2020 £000	Change %	Value on increase £000	Value on decrease £000
Total equities	817,707	11%	904,377	731,079
Total bonds and indexed linked	280,541	5%	294,894	266,188
Multi-asset	163,023	5%	171,686	154,361
Alternatives	31,803	3%	32,672	30,933
Property	245,970	3%	253,766	238,172
Other assets	3,711	0%	3,711	3,711
Total	**1,542,755**			

The potential changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisers' most recent review. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as shown in the table above.

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The fund's interest rate risk is routinely monitored by the council and its investment advisers in accordance with the fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

Fixed interest securities are exposed to interest rate risk. The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%:

Assets exposed to interest rate risks	Market value £000	Value on 1% rate increase £000	Value on 1% rate decrease £000
As at 31 March 2021	**135,739**	**137,096**	**134,382**
As at 31 March 2020	**126,966**	**128,236**	**125,696**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. A strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

The fund's currency risk is routinely monitored by the council and its investment advisers in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Assets exposed to currency risk	Value £000	Change %	Value on foreign exchange rate increase £000	Value on foreign exchange rate decrease £000
As at 31 March 2021	1,239,367	10	1,363,304	1,115,430
As at 31 March 2020	912,962	10	1,004,258	821,666

Analysis by currency	31 March 2021 £000	31 March 2020 £000
GB pound sterling (GBP)	1,035,079	762,109
US dollar (USD)	111,500	77,694
Euro (EUR)	36,173	32,335
Japanese yen (JPY)	16,070	8,817
Hong Kong dollar (HKD)	13,216	5,391
Swiss franc (CHF)	9,918	12,843
South Korean won (KRW)	5,958	2,874
Swedish krona (SEK)	4,377	2,757
Thai baht (THB)	4,065	1,826
Danish krone (DKK)	3,011	-
Canadian dollar (CAD)	-	3,637
Norwegian krone (NOK)	-	2,679
Total	**1,239,367**	**912,962**

Credit risk

This is the risk the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. For example a stock may lose value or a dividend due may not be paid. The fund's entire investment portfolio is therefore exposed to some form of credit risk. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The Fund has set out a series of restrictions in each investment manager's agreement. These restrictions are intended to limit the risks from each individual investment and prevent unsuitable investment activity. The Fund also employs a global custodian to ensure that all transactions are settled in a timely manner.

Liquidity risk

This is the risk that the Pension Fund may not have the funds available to meet payments as they fall due. Historically the Fund has been cash positive (i.e. contributions received have been greater than benefits paid out). However, in recent years this has reversed with benefits paid now surpassing contributions received. The reduction in active members and a resulting change in the membership profile have increased the liquidity risk of the Fund going forward.

The Fund currently has two bank accounts. One is held by the global custodian and holds cash relating to investment activities, the other is the Pension Fund bank account, which holds the cash relating to member activities.

There is a strategy in place to forecast all income and expenditure for the Fund to ensure that sufficient funds will be made available to meet short-term commitments. In the event that there are insufficient available assets to meet liabilities when they fall due, the Fund would be able to redeem investment assets and recall cash resources from investment managers at short notice to meet this requirement.

19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

IAS 26 (retirement benefit plans) requires the ‘actuarial present value of promised retirement benefits’ to be disclosed in the Pension Fund Accounts using the most recent actuarial valuation. The fund was last valued as at 31 March 2019.

	31 March 2019 £m	**31 March 2016 £m**
Fair value of net assets	1,642	1,256
Actuarial present value of promised retirement benefits	(2,192)	(1,671)
Surplus/(deficit) in the fund as measured for IAS 26	**(550)**	**(415)**

20. ACTUARIAL POSITION OF THE FUND

Statement of the Actuary for the year ended 31 March 2021

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the London Borough of Southwark Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31 March 2019 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund’s assets as at 31 March 2019 (of £1,642.0m) covering 103% of the liabilities allowing, in the case of pre-1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay, and for other membership for future pension revaluation and increases.

2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2020 was:

   18.3% p.a. of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate),

   Plus

   an allowance of 1.5% p.a. of pensionable pay for McCloud and Cost Management – see paragraph 9 below,

   Less

   1.5% p.a. of pensionable pay to remove surplus, over a recovery period of 20 years from 1 April 2020 (which together with the allowance above for McCloud and Cost Management comprises the secondary rate).

3. In practice, each individual employer's or group of employers' position is assessed separately taking into account other factors (see note 4 below) and contributions are set out in Aon's report dated 30 March 2020 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities such as those arising from early retirements and ill-health retirements will be made to the Fund by the employers.

   Total contributions payable by all employers over the three years to 31 March 2023 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£m)
2020	21.8	0.03
2021	21.6	-
2022	21.1	-

4. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate and stepping of contribution changes and grouping of employer contributions as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances. This included an agreement that where employers are in surplus, this has only led to an adjustment in contributions to the extent that this surplus is in excess of 10% of the value of that employer's liabilities (i.e. to the extent that the employer's funding level is greater than 110%).

5. The valuation was carried out using the projected unit actuarial method for most employers and the main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service	4.05% p.a.
Discount rate for periods after leaving service	4.05% p.a.
Rate of pay increases	3.60% p.a.
Rate of increase to pension accounts	2.10% p.a.
(in excess of Guaranteed Minimum Pension)	2.10% p.a.

   The assets were valued at market value.

   Further details of the assumptions adopted for the valuation, including the demographic assumptions, are set out in the actuarial valuation report.

6. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2 Heavy mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis using Aon's Demographic HorizonsTM longevity model, and included an allowance for improvements based on the 2018 Continuous Mortality Investigation (CMI) Core Projections Model (CMI2018), with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	20.7	23.5
Future pensioners aged 45 at the valuation date	22.5	25.4

7. The valuation results summarised in paragraphs 1 and 2 above are based on the financial position and market levels at the valuation date, 31 March 2019. As such the results do not make allowance for changes which have occurred subsequent to the valuation date. The Actuary, in conjunction with the Administering Authority, monitors the funding position on a regular basis.

8. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2020 to 31 March 2023 were signed on 30 March 2020. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2022 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

9. There are a number of uncertainties regarding the Scheme benefits and hence liabilities:

Increases to Guaranteed Minimum Pensions (GMPs):

The 2019 valuation allows for the extension of the ‘interim solution’ for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 April 2021. On 23 March 2021, the Government published a response to its consultation on the longer-term solution to achieve equalisation for GMPs as required by the High Court Judgement in the Lloyds Bank case. The response set out its proposed longer-term solution, which is to extend the interim solution further to those reaching SPA after 1 April 2021.

The results of the 2019 valuation do not allow for the impact of this proposed longer-term solution. Based on approximate calculations, at a whole of fund level, the impact of providing full pension increases on GMPs for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of between 0.1% to 0.2% across the Fund as a whole.

Cost Management Process and McCloud judgement:

Initial results from the Scheme Advisory Board 2016 cost management process indicated that benefit improvements/ member contribution reductions equivalent to 0.9% of pay would be required. However, the cost management process was paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) constituted illegal age discrimination. Government confirmed that the judgement would be treated as applying to all public service schemes including the LGPS (where the transitional arrangements were in the form of a final salary underpin) and a consultation on changes to the LGPS was issued in July 2020.

The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 1.5% of pay in relation to the potential additional costs following the McCloud judgement / cost management process. This was a simplified approach which did not take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the details of the LGPS changes arising from the McCloud judgement and (if applicable) arising from the 2016 cost management process have been agreed.

Work on the 2020 cost management process has now started, and it is possible that further changes to benefits and/or contributions may ultimately be required under the process, although the outcome is not expected to be known for some time.

Goodwin

An Employment Tribunal ruling relating to Teachers' Pension Scheme concluded that provisions for survivor's benefits of a female member in an opposite sex marriage are less favourable than for a female in a same sex marriage or civil partnership, and that treatment amounts to direct discrimination on grounds of sexual orientation. The chief secretary to the Treasury announced in a written ministerial statement on 20 July 2020 that he believed that changes would be required to other public service pension schemes with similar arrangements, although these changes are yet to be reflected in LGPS regulations. We expect the average additional liability to be less than 0.1%, however the impact will vary by employer depending on their membership profile.

10. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2019. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

    This Statement must not be considered without reference to the formal actuarial valuation report which details the context and limits of the actuarial valuation.

    Aon does not accept any responsibility or liability to any party other than our client, the London Borough of Southwark, the Administering Authority of the Fund, in respect of this Statement.

11. The report on the actuarial valuation as at 31 March 2019 is available on request from the London Borough of Southwark, the Administering Authority of the Fund.

Aon Hewitt Limited
May 2021

21. POST BALANCE SHEET EVENTS

No such material events have occurred.

Agenda Item 11

Item No. 11	Classification: Open	Date: 22 December 2021	Meeting Name: Pensions Advisory Panel
Report title:		Actuarial Funding Update – September 2021	
From:		CIPFA Trainee, Treasury & Pensions	

Recommendation

The PAP is asked to:

- Note the updated funding position at 30 September 2021.

Background

1. The last triennial actuarial valuation of the Fund took place as at 31 March 2019. The valuation determined the Fund was 103% funded and had a surplus of £47m.

2. The actuaries provide quarterly funding updates which are projected from the results of the 2019 valuation. The purpose of the funding updates is to give a broad picture of the direction of funding changes since the actuarial valuation.

Funding Position

3. The funding level at 30 September 2021 was 114% (114% at 30 June 2021). The surplus has decreased by £4m in the quarter to September 2021. This small change is due to a slight fall in the net discount rate increasing liabilities. This has however mostly been offset by better than expected asset returns.

Community, Equalities (including socio-economic) and Health Impacts

4. **Community Impact Statement**

   No immediate implications arising.

5. **Equalities (including socio-economic) Impact Statement**

   No immediate implications arising.

6. **Health Impact Statement**

   No immediate implications arising.

7. **Climate Change Implications**

No immediate implications arising.

8. **Resource Implications**

No immediate implications arising.

9. **Legal Implications**

No immediate implications arising.

10. **Financial Implications**

No immediate implications arising.

11. **Consultation**

No immediate implications arising.

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Jack Emery, CIPFA Trainee, Finance and Governance	
Version	Final	
Dated	14 December 2021	
Key Decision?	N/A	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	N/A	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		15 December 2021

Item No. 13	Classification: Open	Date: 22 December 2021	Meeting Name: Pensions Advisory Panel
Report title:		Pension Services - administration function update	
Ward(s) or groups affected:		None	
From:		Pensions Manager, Finance and Governance	

RECOMMENDATION

1. The Pensions Advisory Panel (the **Panel**) is asked to note this update on the pensions administration function.

BACKGROUND INFORMATION

2. The Panel received an update in September 2021 which set out information about staff changes, IT/systems, communications and complaint management.

COVID-19 IMPLICATIONS

3. Prior to 13 December there had been a daily presence of pensions staff in Tooley Street. However, in line with recent Government guidance and Southwark HR advice, all staff have now been asked to work from home wherever possible.

IT/SYSTEMS

4. The Data Systems Team continue to test new Civica/UPM processes and data that has been mapped to the new system. Unfortunately, we have uncovered some formatting issues with SAP (pensioner) data which has meant Civica requiring more historical pensioner data from the existing admin system (Altair).

5. Whilst a go-live in Q1 2022 was achievable, it placed too much risk on three high profile projects - (employer year-end data submissions for Annual Benefit Statement production - Pension Increase for 8,000 members - and the data extraction requirements for the 2022 actuarial valuation). Therefore, go-live for both Pensioner Payroll and Admin will be aligned to 1 May 2022 (not phased).

6. Documents/imaging - the first transfer has been completed successfully with two more scheduled before the UPM system goes live.

7. The new system's web Member Portal and Employer Portal are in the development phase and will shortly move into the testing phase.

- The Member Portal includes many self-service enhancements on the current portal, particularly for pensioners, who will be able to manage their pension online and see monthly digital payslips.

- The **Employer** Portal includes monthly return functionality and adds a function for Pension Services to assign tasks to Southwark employers.

UK PENSIONS DASHBOARD PROGRAMME

8. Pension Services are staying informed and updated on the development of the nationwide Pensions Dashboard Programme, with team members attending webinars and receiving email updates. On-boarding and data/process testing begins in autumn 2022, carrying on until the public launch in autumn 2023.

9. The programme has published its preliminary data standards but not a specific data format. We have confirmed with Civica that once final data requirements are published, they will update the UPM system with the functionality to produce the data required. As it will be a national requirement for all pension schemes it will be introduced as a standard system function upgrade at no extra cost.

RECRUITMENT/STAFFING

10. In view of current Covid guidelines, recruitment of assistant level/apprentice roles will be postponed until early 2022.

PROGRESS TO DECEMBER 2021

Since the last Panel update, further progress has been made in the following areas.

COMMUNICATION INITIATIVES

11. An AVC information/awareness email will be issued shortly to active members.

12. Annual Allowance tax checks for 2020-21 are now complete with all affected members being contacted in early October 2021.

13. Communication review now underway for all pensions/payroll admin letters/statements as part of the move to UPM software. Wherever possible, communication will be in Plain English and Crystal Marked.

14. Website initiatives underway to improve member engagement and interest.

15. Training continues to be delivered to members, staff, HR and employers.

16. Winter 2021 newsletter will be finalised shortly and issued in paper and digital formats. It will include commentary on the Funds carbon journey.

COMPLAINT MANAGEMENT

- General Complaint - Co-Op Legal contacted the Fund in relation to the balance of pension due to the estate of a deceased member. Vendor creation process had delayed the payment. Balance has now been paid and case is closed.
- The Pensions Ombudsman (TPO) - a deferred member requested a transfer out to another pension provider but it was within 12 months of Normal Pension Age and is prohibited under the LGPS Regs/PSA93. Ongoing case with TPO.
- IDRP - lack of 'due diligence' claim against the Fund following the decision of a former deferred member to transfer out. As the transfer value was less than £30k the onus was on the former member/agent to obtain appropriate advice.
- General Complaint - member was kept on hold for 40 minutes on the phone with Contact Centre whilst trying to make contact with Pension Services. Member said they were 'uncomfortable' using email. Matter now resolved.
-

PERFORMANCE MONITORING

Attached as Appendix 1 is statutory data collected between 1 September 2021 and
30 November 2021. The format has been amended slightly to show how current performance compares to the previous metrics provided in September's report.

Longer-term aspirations are to benchmark against CIPFA guidance (or better).

CONCLUSIONS

17. Retention of key staff with the necessary skills is critical to the achievement of future plans.

18. There will continue to be some reliance on specialist external support. However, with internal training now in place, 95% of all business as usual and project work is managed in-house by Pension Services.

19. Performance monitoring remains an important part of the pensions function. The procurement of new Civica UPM software will allow Pension Services to develop workflow and task management, where more detailed Management Information can be extracted around performance. However, the Panel is also asked to consider that processing speed is not the only indicator of success, and that attention to detail and the customer journey must also be considered.

KEY ISSUES FOR CONSIDERATION

20. N/a

Policy framework implications

21. There are no immediate implications arising from this report.

Community, equalities (including socio-economic) and health impacts

Community impact statement

22. There are no immediate implications arising from this report.

Equalities (including socio-economic) impact statement

23. There are no immediate implications arising from this report.

Health impact statement

24. There are no immediate implications arising from this report.

Climate change implications

25. There are no immediate implications arising from this report.

Resource implications

26. There are no immediate implications arising from this report.

Legal implications

27. There are no immediate implications arising from this report.

Financial implications

28. There are no immediate implications arising from this report.

Consultation

29. There are no immediate implications arising from this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Governance

30. Not applicable.

Strategic Director of Finance and Governance

31. Not applicable.

Other officers

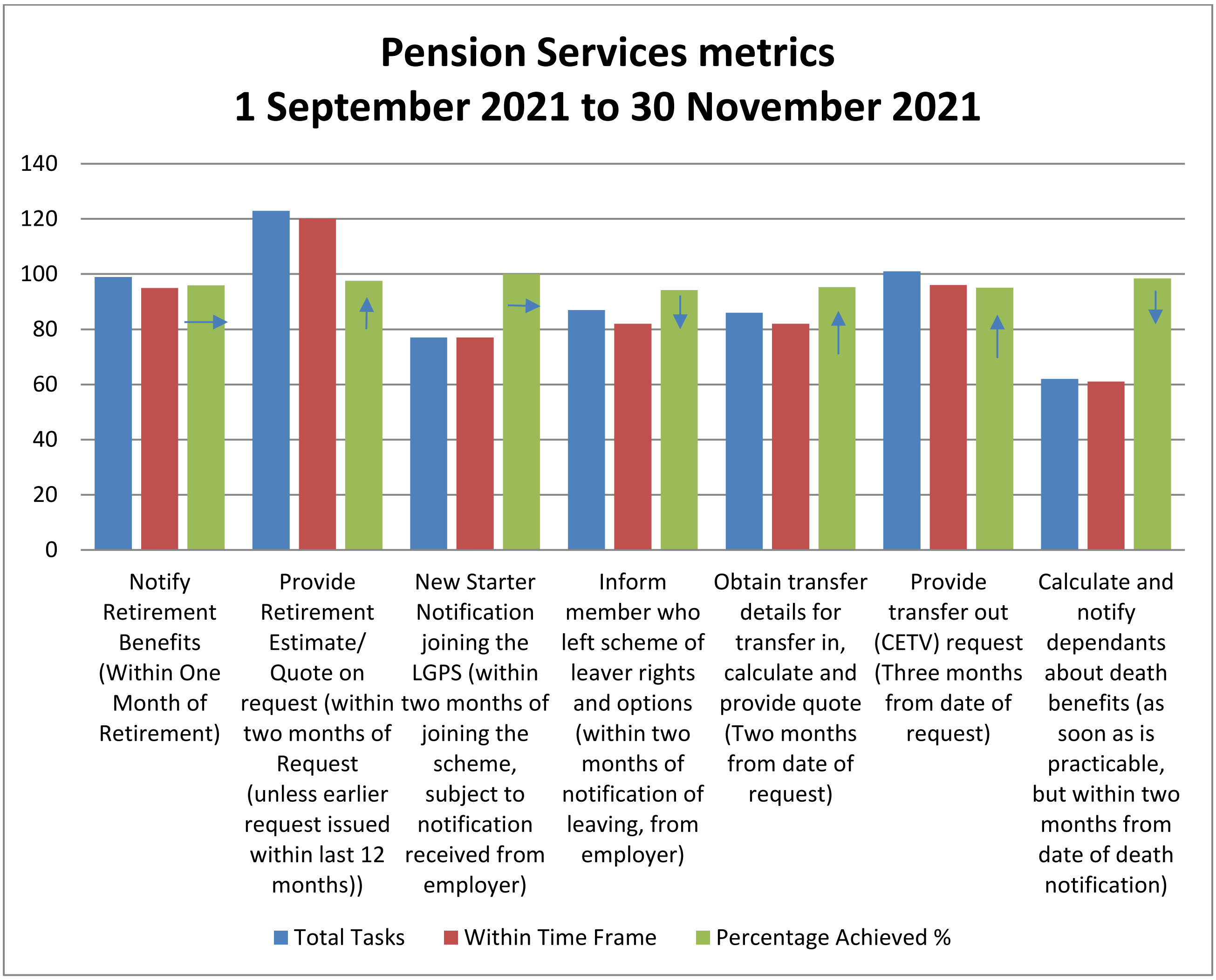
32. Not applicable.

APPENDICES

No.	Title
Appendix 1	Performance Metrics

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Barry Berkengoff, Pensions Manager, Finance and Governance	
Version	Final	
Dated	22 December 2021	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Director of Law and Governance	No	N/a
Strategic Director of Finance and Governance	No	N/a
Cabinet Member	No	N/a
Date final report sent to Constitutional Team		15 December 2021



	Total Tasks	Within Time Frame	Achieved %
Notify Retirement Benefits (Within One Month of Retirement)	99	95	96
Provide Retirement Estimate/ Quote on request	123	120	98
New Starter Notification joining the LGPS	77	77	100
Inform member who left scheme of leaver rights and options	87	82	94
Obtain transfer details for transfer in, calculate and provide quote	86	82	95
Provide transfer out (CETV) request (Three months from date of request)	101	96	95
Calculate and notify dependants about death benefits	62	61	98

MUNICIPAL YEAR 2021/22

COMMITTEE: Pensions Advisory Panel

NOTE: Original held by Constitutional Team. All amendments/queries to Andrew Weir Tel: 020 7525 7222. Email: Andrew.weir@southwark.gov.uk

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Dated: 16 December 2021