

LONDON BOROUGH OF CROYDON

REPORT:	PENSION BOARD	
DATE OF DECISION	17 October 2024	
REPORT TITLE:	Review of LGPS Fund Valuations as at 31 March 2022 by Government Actuary's Department	
CORPORATE DIRECTOR / DIRECTOR:	Jane West, Corporate Director of Resources (Section 151 Officer)	
LEAD OFFICER:	Matthew Hallett – Head of Pensions and Treasury	
CONTAINS EXEMPT INFORMATION?	NO	

1. SUMMARY OF REPORT

- 1.1 This report summarises the results provided by the Government Actuary's Department (GAD) of their review under Section 13 of the Public Service Pensions Act 2013 of LGPS fund valuations as at 31 March 2022.

2. RECOMMENDATION

The Pension Board is recommended:

- 2.1 To consider and note the results provided by the Government Actuary's Department of their review under Section 13 of the Public Service Pensions Act 2013 of LGPS fund valuations as at 31 March 2022.

3. REASON FOR RECOMMENDATION

- 3.1 It is best practice for the Pension Board to be advised of the results provided by GAD of their review under Section 13 of the Public Service Pensions Act 2013 of LGPS fund valuations as at 31 March 2022.

4. BACKGROUND AND DETAILS

- 4.1 GAD has been appointed by the Ministry of Housing, Communities and Local Government (formerly the Department for Levelling Up, Housing and Communities) to report under section 13 of the Public Service Pensions Act 2013 (Section 13), in connection with the 2022 actuarial valuations of the 87 funds in the Local Government Pension Scheme (“the Scheme”).
- 4.2 Section 13 requires GAD to report on whether, for each fund, the following aims are achieved:
- 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 the Scheme;
 - Solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the fund; and
 - 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 fund.
- 4.3 The report is based on the actuarial valuations of all of the funds, other data provided by the funds and their actuaries, and engagement exercises with relevant funds. The report is the third formal Section 13 report, the first being applied to the 31 March 2016 valuations and second being applied to the 31 March 2019 valuations.
- 4.4 Hymans Robertson (Hymans), the Croydon Fund’s Actuary submitted data and information regarding the valuation on the Fund’s behalf to GAD who have used it to carry out their analysis. When looking at consistency with actuarial valuations, the London Borough of Croydon Pension Fund was selected at random as a ‘representative example’ of funds using Hymans Robetson as their actuary. GAD noted that they did not have any specific concerns with the funds selected and none of the funds selected had raised any amber or red flags
- 4.5 The GAD report ‘Review of LGPS fund valuations at 31 March 2022 under Section 13’ can be accessed via the three links below:
[LGPS E W 2022 Section 13 Report Review of LGPS Fund Valuations.pdf](#)
[LGPS E W 2022 Section 13 Report Review of LGPS Fund Valuations Appendices.pdf](#)
[LGPS E W 2022 Section 13 Report Funding Analysis Report.pdf](#)
- 4.6 The report notes that the funding position of the LGPS has improved since 31 March 2019 and the Scheme appears to be in a strong financial position. The aggregate funding level on prudent local bases has improved from 98% (at 2019) to 106% (at 2022) although 26 out of 87 funds were in deficit. The aggregate funding level on the Government Actuary’s Department’s (GAD’s) best estimate basis is 119% (at 2022). GAD’s best estimate basis is the set of assumptions derived by GAD without allowance for prudence. The recommendations from the report are set out below:

Recommendation 1

We recommend that the Scheme Advisory Board consider whether greater consistency could and should be achieved to allow easier comparison between funds and better understanding of risks.

Recommendation 2

We recommend that the Scheme Advisory Board continue to consider emerging issues and, where appropriate, whether guidance would be helpful to support greater consistency.

As part of greater consistency on climate risk, we recommend that work continues to refine the climate change principles document in advance of the 2025 fund valuations.

Recommendation 3

We recommend that the Scheme Advisory Board consider the following:

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

- 4.7** Hymans Robertson produced a 60-second summary on the GAD report. This is attached as Appendix A to this report. As part of the summary Hymans Robertson make comment on the recommendations raised by the report:

On Recommendation 1 – Hymans commented to GAD that it would be helpful to understand which elements of a valuation they believe there could be greater consistency. There are legitimate reasons why LGPS funds may have differing views and circumstances regarding elements such as methodology, prudence, assumptions and a one size fits all consistent approach would not be appropriate.

On Recommendation 2 – Hymans are supportive of anything that helps awareness around emerging risks and offers ideas about how these risks can be assessed, understood and reported on. However, given such risks are emerging and typically uncertain, they believe that it is beneficial for the LGPS if funds are free to proportionately explore a variety of managing, measuring and mitigation options to avoid 'group think' and systemic risk. They are currently working with GAD and MHCLG to help update the climate change principles document with this belief in mind.

On Recommendation 3 – Hymans are supportive of this recommendation regarding funds that are in surplus so long as it does not constrain individual fund strategy decisions.

Where funds are in deficit, Hymans remain unconvinced that continuing the same plan (which GAD interpret to mean recovering a deficit by a fixed end point) is appropriate for LGPS employers that are expected to participate for the long term. It also ignores

that there is no single 'deficit recovery' for the fund, it is in effect the sum/average of all the employers' own funding strategies.

Hymans are generally supportive of additional guidance in relation to the treatment of asset transfers from local authorities.

4.8 The Board are asked to note the following drawn from the results for the Croydon Pension Fund:

- On a single 'SAB standard basis', which allows a like-for-like comparison, Croydon was 109.8% funded in 2022, which was 58th when compared to the other LGPS funds. In 2016 Croydon was 81% funded which was 81st when compared to the other LGPS funds. Note that GAD consider the SAB standard basis to be a useful comparator, but not an appropriate or target local funding basis.
- The level of difference between funding level on the SAB standardised basis and funding level on a local basis for Croydon was 12.8% which was 29th. This could be seen as a measure of comparative prudence in the management of the Fund. However, Hymans point out that this comparison is imperfect as it does not account for differences in investment strategies.
- When looking at the solvency measures, Croydon was marked as green on all measures. Green indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure solvency.
- When looking at long term cost efficiency measures, Croydon was marked as green on all measures apart from deficit recovery plan where it was marked as white. 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 GAD had broader concerns. Hymans commented to Officers that the flag was due to the whole of fund contribution rate being reduced compared to the 2019 valuation, meaning a lower likelihood of success associated with the funding plan. They advised GAD that Croydon were being unfairly penalised as we could have reduced contributions in 2019, but chose not to and so GAD only issued a white flag.

4.9 There are no actions specifically for the Fund as a result of the GAD report.

5. ALTERNATIVE OPTIONS CONSIDERED

5.1 N/A

6. CONSULTATION

6.1 No consultation outside the formal process is required.

7. IMPLICATIONS

7.1 There are no implications arising from this report other than those already mentioned

8. APPENDIX

Appendix A – Hymans Robertson 60-second summary on the GAD report

9. BACKGROUND DOCUMENTS

9.1 None