Cost Management, Benefit Design and Administration Committee

Meeting of the 12th September 2022

Item 7 Paper C

2019 Section 13 Report

Issue – To consider and agree positions on the three recommendations made in the 2019 report for SAB to take forward.

Background

1. Section 13 of the Public Service Pensions Act 2013 requires the Government Actuary to report on whether the following aims in LGPS triennial fund valuations are achieved:
   - Compliance
   - Consistency
   - Solvency
   - Long term cost efficiency

2. The 2019 report is the second formal section 13 report. Section 13 was applied for the first time to the fund valuations as at 31 March 2016. A copy of the 2019 report can be found at https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2019/lgps-england-and-wales-section-13-report-31-march-2019-executive-summary.

3. The 2019 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. As in the 2016 report, a number of recommendations have been made for SAB to take forward:

- 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.

- 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.

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- 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.

4. When it met in February the committee tasked the Secretariat to arrange a series of meetings with scheme stakeholders to discuss the three recommendations with the aim of preparing a paper for SAB's consideration. The Secretariat has secured invitations to the regular meetings arranged between DLUHC, GAD and the four actuarial firms. These had been meant to be quarterly but the summer meeting did not go ahead so the first meeting of this group with the Secretariat will be in November. However, the Secretariat will meet GAD and DLUHC on the 15th September to discuss handling arrangements for the November meeting.

Consideration

5. The recommendations for SAB build on those in the earlier 2016 report. They ask for further progress on improving clarity and consistency of actuarial assumptions.

6. **Consistency -** GAD acknowledges in the 2019 report that good progress has been made in incorporating standard dashboards in valuation reports. This allows for greater comparability between the content of reports produced by different funds. However, differences in the underlying methodology and assumptions mean that it is still not always possible to make a like for like comparison. Does the committee agree that the drive for greater consistency should remain the primary aim?

7. GAD have also particularly asked SAB to consider whether inconsistencies in the way Academy conversions are carried out in different funds, which results in widely divergent contribution rates, can or should be removed. There are different ways in which inconsistencies arise in establishing academy contribution rates, mainly;

- Different approaches to contribution rate setting taken by the different actuarial firms (intrinsic differences)
- Different aims being sought from the rate setting methodology, eg equal splits of LEA funding position, "clean slate" starting position or backfitting equal contribution rates to the LEA rate (purposive differences)

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- Different workforce characteristics mean that even identical methodologies will provide different outcomes for different academy schools (factual differences).

  Does the committee share the view that there should be greater consistency of methodology? If so, then the committee is asked to consider how might some or all of these sources of difference be addressed. Would it be helpful to set up a small working group to consider these issues in more detail?

8. **Deficit Recovery Plan** – In their report GAD noted that different approaches have been taken by different actuarial firms to determine deficit recovery plans. It is acknowledged that different approaches may be appropriate but that it is important for stakeholders to be able to assess how the deficit recovery plan changes over time. GAD recommend that SAB consider how all funds ensure that the deficit recovery plan can be demonstrated to be a continuation of the previous plan.

9. **Asset transfers** – According to GAD, some councils have made or may be considering transfers of assets to their pension funds which are novel, may be complex and in some cases are established with a long time horizon. In some cases this has involved the administering authority as a scheme employer suggesting such an arrangement to itself as an administering authority. GAD have suggested that the governance around any such asset transfer arrangements requires careful consideration. SAB has already made recommendations to DLUHC to strengthen governance and the management of conflicts of interest (as part of the outcome of the Good Governance Review). Does the committee feel that any further recommendations are necessary to address this recommendation from GAD?

10. The committee is invited to consider whether it wishes to give the Secretariat any particular steer on the questions posed, or how to approach the discussions with GAD, DLUHC and the fund actuaries.

Recommendation – that the committee consider the three recommendations at paragraph 3 to assist in discussions with GAD, DLUHC and the fund actuaries. In particular, views are sought on how the recommendation on treatment of academies at conversion should be taken forward.

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