

Bath & North East Somerset Council

MEETING:	LOCAL PENSION BOARD	
MEETING DATE:	2nd NOVEMBER 2016	AGENDA ITEM NUMBER
TITLE:	Government Actuary's Department Section 13 Report on LGPS funds	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – GAD Section 13 Dry Run Report – Executive Summary		

1 THE ISSUE

- 1.1 Section 13 of the Public Service Pensions Act 2013 (PSPA2013) requires the Government Actuary (GAD) to report on the valuations of the LGPS funds. It has published a report using the 2013 valuation outcomes and is a “dry run” for actuaries and funds to understand how the GAD will report on Section 13 criteria in the future.
- 1.2 Section 13 requires GAD to report on each fund against four main aims; compliance, consistency, solvency, and long term efficiency. In this dry run report the Avon Pension Fund is evaluated as a fund that has met these aims.
- 1.3 GAD will publish its first formal report following the 2016 valuation. The actuary will discuss the implications of Section 13 on the 2016 valuation when he presents the valuation outcome to the Committee in December.
- 1.4 This report is for information only; it provides a brief overview of the GAD report and how the information relating to the Avon Pension Fund could be used to inform our funding strategy.

2 RECOMMENDATION

That the Pension Board:-

- 2.1 Notes the Section 13 Dry Run Report.

3 FINANCIAL IMPLICATIONS

3.1 There are no financial considerations in this report.

4 BACKGROUND

4.1 Section 13 of the PSPA2013 requires GAD to report on whether four main aims are achieved at each valuation for each fund in the LGPS. The four main aims are:

- (1) Compliance: whether the fund's valuation is in accordance with the regulations
- (2) Consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with other valuations within the LGPS
- (3) Solvency: whether the average rate of employer contribution is set at an appropriate level to ensure the solvency of the fund
- (4) Long term cost efficiency: whether the average rate of employer contributions is set at an appropriate level to ensure long term cost efficiency of the fund.

4.2 Under Section 13 remedial action may be required by funds that do not achieve these aims.

5 DRY RUN REPORT

5.1 This report is extensive and can be accessed in full via the Avon Pension Fund website www.avonpensionfund.org.uk/finance-and-investments, section Funding Strategy Statement. The executive summary has been included in these papers to give an overview of the approach taken by GAD.

Summary of findings

5.2 All funds have complied with the regulations.

5.3 There are inconsistencies in valuation approaches by the actuarial firms in setting assumptions some of which should indeed vary to reflect the membership, risk and investment profiles of the individual funds. The valuation is about setting a reasonable pace of funding given an uncertain future. It must therefore reflect each fund's appetite for risk and a pace of funding that is appropriate. In particular a level of prudence must be built in to the plan so it can cope with adverse events and future affordability pressures. The main issue is whether the assumptions are transparent, reflect the fund's investment strategy, risk appetite and experience, and are consistent with the contributions being paid into the fund over the agreed timeframe.

5.4 Using a standardised reporting basis is helpful for comparing funds. However, it is only a comparison tool and should not be used to drive decisions as the standardised assumptions do not reflect the investment or risk profile of the Avon Pension Fund or any other Fund.

5.5 For solvency and long term cost efficiency measures, GAD has applied a RAG system. Some of the measures are very simplistic and need careful interpretation. GAD itself acknowledges the limitation of their approach in their report.

From our perspective we can use the information to better understand whether our funding strategy is fit for purpose, robust, transparent and achieving the Fund's funding objectives. It should not be used to drive decisions by benchmarking against funds in a "league table" or to consider a green flag

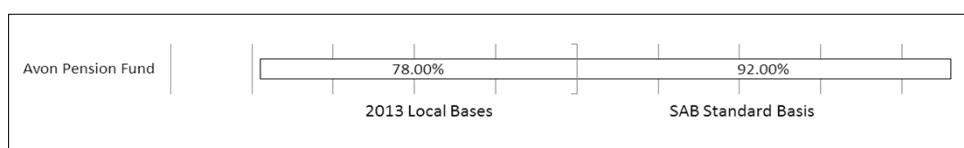
adequate in itself; decisions on funding should be based on the Fund's own experience, risk profile and long term funding and investment objectives.

- 5.6 We expect this report to evolve to improve and provide more clarity in the analysis. Going forward the actuary will assess how the fund stands against these measures as part of the valuation process.

The Published Report

- 5.7 Summaries of the main findings as far as they relate to the Avon Pension Fund are shown below:

Funding Levels: The funding level is higher when calculated by GAD who use a higher discount rate than the one used by the Fund. The GAD discount rate does not relate to the Fund's investment strategy.



Solvency Measures: Shows the rates set in the funding strategy are appropriate to ensure solvency.

Pension Fund	Maturity (Rank)	Solvency Measures					
		Risk Already Present			Emerging Risks		
		SAB Funding Level	Open Fund	Non- Statutory Employees	Liability Shock	Asset Shock	Employer Default
Avon Pension Fund	5.9 (82)	92%	YES	6%	+3%	+4%	+0%

Long Term Cost Efficiency Measures: Shows the Fund meets the criteria used by GAD to assess whether the pace/timing of contributions and return on investment assumption used is consistent with ensuring long term cost efficiency.

Pension Fund	Maturity (Rank)	Long Term Cost Efficiency Measures						
		Relative Considerations				Emerging Risks		
		Deficit Repaid	Deficit Period	Required Return	Repayment Shortfall	Return Scope	Deficit Extension	Interest Cover
Avon Pension Fund	5.9 (82)	>50%	1	2%	16%	4.3%	-3	Yes

6 IMPACT ON 2016 VALUATION

- 6.1 The actuary has previously stated (in the 2016 Funding Strategy Statement workshop) that the Section 13 analysis should not affect our funding strategy as our approach is robust (in terms of pace and level of contributions paid) and transparent. In particular the discount rate used in the actuarial valuation has a clear link with our investment strategy and risk objectives; we have introduced a covenant assessment to ensure individual employer risk to the fund is assessed and monitored on an ongoing basis; we have risk management strategies in place to manage specific liability, investment and employer risks.

7 RISK MANAGEMENT

7.1 No decision is required and therefore a risk assessment in compliance with the Council's decision making risk management guidance is not necessary.

8 EQUALITIES

8.1 An equalities impact assessment is not necessary.

9 CONSULTATION

9.1 N/a

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 N/a

11 ADVICE SOUGHT

11.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director – Support Services) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Investments Manager 01225 395306
Background papers	GAD Section 13 Dry Run Report and Appendices 2013
Please contact the report author if you need to access this report in an alternative format	