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Haringey Pension Fund

LGPS Update

A paper by the Independent Advisor

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Introduction

This paper informs and updates the Pensions Committee and Board in respect of a number of important issues relating to the LGPS at a national level. The issues covered in this paper are:

1. Update on the Consultation outcome of November 2023.
2. The Ministerial Letter of 15 May 2024.
3. New Government Ministers.
4. The new Government and the LGPS.
5. Annual Pension Fund Report – Updated Guidance.
6. LGPS Accounts and Audit.
7. Review of 2022 Actuarial Valuations by the Government Actuary.

It is hoped this paper will be informative to all Members of the Pensions Committee and Board and will contribute to their knowledge and understanding of the LGPS.

1. Update on the Consultation outcome of November 2023

The meeting of the Pensions Committee and Board held on 30 January 2024 received a report (Agenda Item 9) ***"DLUHC Consultation Outcome: LGPS – Next steps on investments"*** the Appendix to which was a paper by the Independent Advisor updating the PCB on the main outcomes. This paper included a commentary on both the Consultation of July 2023 **"Local Government Pension Scheme (England and Wales): Next steps on Investments"** and the **Consultation outcome** issued by the Government on 22 November 2023 which stated how the Government intended to proceed.

In order for the changes to the LGPS covered in the **Consultation outcome** to come into effect it is necessary for appropriate changes to be made to the LGPS Regulations and/or new Statutory Guidance to be issued. As at the time the General Election was called, however, no such Regulations or Statutory Guidance had been issued in respect of most of the issues covered in the **Consultation outcome -** including Investment Pooling (very clearly the principal issue within the Consultation), Levelling Up, Private Equity, objectives for Investment Consultants, and to correct the definition of investment in the 2016 Investment Regulations. Therefore, most of the proposals, including the most important ones relating to the further development and implementation of Pooling have not (yet) come into effect.

In respect of the proposals relating to reporting on Investment Performance and on Pooling activity/outcomes these have, however, been implemented through the new Statutory Guidance on the Pension Fund Annual Report issued in March 2024. The new reporting requirements are significant and are covered in more detail in Section 5 of this LGPS Update.

2. The Ministerial Letter of 15 May 2024.

On 15 May 2024, the then Local Government Minister (Simon Hoare MP) issued a letter to all LGPS Funds in England (but not those in Wales even though the LGPS in Wales fell within his remit). This letter sought information on *"…your approach to efficiencies in the management, governance and administration of your LGPS fund and asset pool…"*

The letter asked for responses in respect two themes. Firstly, *"How your fund will complete the process of pension asset pooling to deliver the benefits of scale"* There were a number of specific questions on this theme including the extent of pooling so far and barriers to completion, levels of expenditure on investment consultancy services, views on the effectiveness of pool governance arrangements. Secondly, "*How you ensure your LGPS fund is efficiently run, including consideration of governance and the benefits of greater scale."* This included the question *"Would you be likely to achieve long-term savings and efficiencies if your LGPS fund became part of a larger fund through merger or creation of a larger pensions authority?"*

Responses to the Minister's letter were required by 19 July 2024. Notwithstanding that a General Election was called by the (then) Prime Minister on 22 May 2024 the LGPS Scheme Advisory Board issued a statement on 25 June 2024 encouraging Funds to still respond to the letter. It is understood that there was a high level of response to the letter and therefore the new Government has information from across the LGPS in England as sought in the Ministerial letter of 15 May 2024. This may be of clear value to the **Pensions Review** that the new Government has commissioned, and which is considered further in Section 4 of this LGPS Update.

3. New Government Ministers

Following the General Election of July 2024 the Department for Levelling Up, Housing and Communities (DLUHC) has returned to its former name of the Ministry of Housing, Communities and Local Government (MHCLG). The new Secretary of State for MHCLG and therefore for the LGPS is Rt Hon Angela Rayner MP. The Minister of State at the MHCLG for Local Government, and who is therefore now the Minister with direct responsibility for the LGPS is Jim McMahon OBE MP.

In addition, it is clear that the Treasury under the Chancellor of the Exchequer Rt Hon Rachel Reeves MP has a clear focus on pensions issues generally which includes not only private sector pension provision but also the LGPS (which will be considered further in Section 4 of this LGPS Update). For the first time ever, a joint ministerial role has been created between the Treasury and the Department for Work and Pensions (DWP) which is responsible for private sector pension issues. Emma Reynolds MP has been appointed to this role as Parliamentary Secretary at HM Treasury and the Department of Work and Pensions. This appointment signals a clear desire by the new Government to more closely co-ordinate pensions policy.

4. The new Government and the LGPS

The new Labour Government is clearly very interested in pensions across both the private sector and the LGPS. The King's Speech of 17 July 2024 included a **Pension Schemes Bill** which (according to the Briefing Notes which accompanied the Speech) *"…will support over 15 million people who save in private-sector pension schemes…and support the Government's mission to deliver growth."*

On 20 July 2024 the Government issued a Press Release "***"Chancellor vows 'big bang on growth' to boost investment and savings"*** This included the statements *"Chancellor launches landmark review to boost investment, increase pension pots and tackle waste in the pensions system"* and *"Action will be taken to unleash the full investment might of the £360 billion Local Government Pension Scheme to make it an engine for UK growth."*

With regard to the **Pensions Review** the 20 July 2024 Press Release also included the statement *"The Review will also, working closely with the Minister of State at MHCLG Jim McMahon, look at how to unlock the investment potential of the £360 billion Local Government Pensions Scheme,…as well as how to tackle the £2 billion that is being spent on fees."*

On 7 August 2024, the Government issued a Press Release ***"Chancellor Reeves: Pension funds can fire up the UK economy."*** This included the statement *"The Chancellor Rachel Reeves has called on pension funds to "learn lessons from the Canadian model and fire up the UK economy"…"*

On 16 August 2024, the **Terms of Reference** of the **Pensions Review** were issued jointly by HM Treasury, DWP and MHCLG. These stated that the Chancellor had appointed Emma Reynolds MP (Parliamentary Secretary at HM Treasury and the Department of Work and Pensions) to lead the review which *"will focus on defined contribution workplace schemes and the Local Government Pension Scheme".*

The **Terms of Reference** also stated, *"The review will also work closely with the Minister of State at MHCLG Jim McMahon to look at how tackling fragmentation and inefficiency can unlock the investment potential of the £360 billion Local Government Pension Scheme in England and Wales…including through further consolidation."*

The **Pensions Review** will have (at least) two phases. The **Terms of Reference** state *"The first phase of the review will focus on developing policy in four areas:*

1. *Driving scale and consolidation of defined contribution workplace schemes;*
2. *Tackling fragmentation and inefficiency in the Local Government Pension Scheme through consolidation and improved governance;*
3. *The structure of the pensions ecosystem and achieving a greater focus on value to deliver better outcomes for future pensioners, rather than cost; and*
4. *Encouraging further pension investment into UK assets to boost growth across the country."*

The second policy area of the review will focus specifically on the structural and governance arrangements of the LGPS. The fourth policy area is also clearly potentially relevant to the LGPS given the Government Press Releases of 20 July and 7 August 2024.

On 4 September 2024 the Government published a Call For Evidence in respect of the **Pensions Review** which is called "**Pensions Investment Review: Call for Evidence"** which is open to *"interested parties"* (which is any organisation or individual) who wishes to respond. The Call for Evidence is only open for three weeks and closes at 11.59pm on Wednesday 25 September 2024. The Call for Evidence asks for responses to five questions under the heading ***"Scale and consolidation"*** of which four relate to the private sector defined contribution (DC) schemes and one to the LGPS. The question relating to the LGPS is *"To what extent has LGPS asset pooling been successful, including specific models of pooling, with respect to delivering improved long-term risk-adjusted returns and capacity to invest in a wider range of asset classes?"* The two questions in the ***"Costs vs Value"*** heading relate to the private sector DC schemes. The heading ***"Investing in the UK"*** consists of three questions which are relevant to both DC schemes and the LGPS which are:

1. What is the potential for a more consolidated LGPS and workplace DC market, combined with an increased focus on net investment returns (rather than costs), to increase net investment in UK asset classes such as unlisted and listed equity and infrastructure, and the potential impacts of such an increase on UK growth?

2. What are the main factors behind changing patterns of UK pension fund investment in UK asset classes (including UK-listed equities), such as past and predicted asset price performance and cost factors?

3. Is there a case for establishing additional incentives or requirements aimed at raising the portfolio allocations of DC and LGPS funds to UK assets or particular UK asset classes, taking into account the priorities of the review to improve saver outcomes and boost UK growth? In addition, for the LGPS, there are options to support and incentivise investment in local communities contributing to local and regional growth. What are the options for those incentives and requirements and what are their relative merits and predicted effectiveness?

Clearly the **Pensions Review** may have major, and even fundamental, implications for the future of the LGPS. Therefore individual LGPS Funds (Administering Authorities) absolutely should submit responses to the Call for Evidence as it is the Administering Authorities who are responsible under the LGPS Regulations 2013 (Regulation 53) *"…for managing and administering the Scheme…"* Indeed given the status of the Administering Authorities in the context of the LGPS they are surely the most relevant interested party in relation to the Call for Evidence as it applies to the LGPS. The Scheme Advisory Board has explicitly encouraged LGPS Funds to respond to the Call for Evidence.

The Call for Evidence also states that *"The review intends to engage extensively with stakeholders via meetings and workshops…"* These had commenced by the week commencing 16 September 2024 including a LGPS Officer workshop involving London LGPS Officer representation. These meetings will consider questions beyond those in the Call for Evidence of 4 September 2024.

The timing of the completion of Phase 1 of the Pensions Review has not been officially announced but it is clear that the Government is working at pace. It is however anticipated that Phase 1 will be completed by the end of the 2024 calendar year at latest and that an announcement of the outcome could be made as early as the Budget on 30 October 2024 or shortly after in November.

5. Annual Pension Fund Report – Updated Guidance

On 28 March 2024 updated Statutory Guidance in respect of the preparation of LGPS Fund Annual Reports was issued. This replaces the previous guidance issued by CIPFA in March 2019. The new Guidance is called ***"Preparing the Pension Fund Annual Report, Guidance for Local Government Pension Scheme Funds, April 2024."***

This new guidance places significant new responsibilities on LGPS Funds including in the areas of reporting in relation to Investment activity. Crucially it implements the Investment Performance and Pooling activity/outcomes proposals contained in the **Consultation outcome** of November 2023. The new Statutory Guidance also places significant new reporting responsibilities on LGPS Funds in respect of Pensions Administration.

This guidance is the first publication to have been reviewed and jointly approved by the Compliance and Reporting Committee (CRC) of the LGPS Scheme Advisory Board (SAB), the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Department for Levelling Up, Housing and Communities (DLUHC, which since the General Election is now the MHCLG). Previously the (now disbanded) CIPFA Pensions Panel was, for many years, responsible for the preparation of Annual Report Guidance.

Paragraph 10 of the new Guidance of 2024 confirms that it has the status in England and Wales of *"statutory guidance."* Therefore, in accordance with Regulation 57(3) of the LGPS Regulations 2013 "*In preparing and publishing the pension fund annual report"* each Administering Authority (in this case the London Borough of Haringey) *"must have regard"* to this Guidance. Paragraph 2 of the new Guidance states *"This guidance applies to 2023/24 annual reports and later years."*

However, Paragraph 2 of the new Statutory Guidance goes on to state *"For annual reports covering 2023/24, funds should use their best endeavours to comply fully with this guidance, but exercise judgement where, because of changes to the previous content, to do so would require disproportionate effort or cost. Where significant variation from this guidance is considered appropriate, funds should provide an explanation."* A reason for this approach is provided in the report ***"ANNUAL REPORT GUIDANCE"*** to the 12 February 2024 meeting of the Scheme Advisory Board Compliance and Reporting Committee (CRC) which states at paragraph 7 that *"…it is acknowledged that it may be a challenge for funds to report on all the new requirements for the 2023/24 reporting year, as changes to the recording and reporting of data may take time to implement."*

This new Statutory Guidance clearly and very significantly increases the reporting requirements for LGPS Funds relating to **Investments** as is clear from a comparison of the contents of the 2019 Statutory Guidance with the 2024 Statutory Guidance. Paragraph 30 of the new Statutory Guidance implements as a ***"must"*** the reporting of *"Investment performance net of fees"* for *"each fund manager or asset class"* together with *"an appropriate benchmark chosen by the authority…"* which implements the proposal regarding reporting in the **Consultation outcome** of 22 November 2023. Paragraphs 35 to 41 set out a broad range of reporting requirements relating to Pooling which implement the proposal in the **Consultation outcome** to *"require greater clarity on the progress of pooling…"* Therefore, the requirements of the 2024 Annual Report Guidance will further highlight the extent of Investment Pooling both by each individual LGPS Fund, and across the LGPS in England and Wales as a whole.

Paragraph 42 of the 2024 Statutory Guidance introduces a new requirement whereby *"The annual report **must** also include data…to provide additional information on investment in the UK…"* This reflects the previous Government's interest in Pension Fund investment in the UK, which is shared by the present Government.

The 2024 Statutory Guidance (paragraph 31) enhances the reporting of environmental, social and governance (ESG) activity as it states that LGPS Funds ***"should"*** provide details of ESG activities. In contrast the 2019 Statutory Guidance merely stated that LGPS Funds ***"may** also wish to provide details"* of any ESG activities.

The new Statutory Guidance also clearly and very significantly increases the reporting requirements for LGPS Funds relating to **Administration** as is clear from a comparison of the contents of the 2019 Statutory Guidance with the 2024 Statutory Guidance. In particular the new Guidance at Paragraph 55 states that *"Pension Funds **must** report on the outcomes of administration KPIs set out in Annex 1 and **should** provide an appropriate commentary such that readers can understand and put the data into context"*

The KPIs at Annex 1 (which is called Annex A elsewhere in the 2024 Guidance) are extensive and cover Casework, Communication and Engagement, Resources, and Data Quality. To seek to facilitate consistency of KPI reporting across LGPS Funds Definitions and Guidance Notes have also been provided.

Doubtlessly to reflect the delays that have been encountered in recent years by some LGPS Funds in obtaining an **External Audit Opinion** a commentary has been added to address this situation. Paragraph 67 states "*Where the audit opinion has not been issued on or before 1st December, the pension fund administering authority is still under a statutory obligation to publish the annual report by the due date. Funds in this position must publish the annual report without an audit opinion making it clear that this is the case and then re-publish the report when the audit opinion is finally issued."*

Overall, there can be no doubt that the new Guidance ***"Preparing the Pension Fund Annual Report, Guidance for Local Government Pension Scheme Funds, April 2024"*** places further demands and resourcing requirements on LGPS Funds across their Investment, Administration, and Accounting functions. It will also, in due course, provide the Government with much information about both the LGPS as a whole and also about each of the existing 86 LGPS Funds in England and Wales.

6. LGPS Accounts and Audit

Regulation 53(1) of the LGPS Regulations 2013 (as Amended) requires Administering Authorities (including the London Borough of Haringey) to *"maintain a pension fund…"* However, at present in England the Pension Fund Account form part of the overall Accounts of the Administering Authority.

Due to delays in the preparation and publication of Administering Authority main accounts delays are consequently occurring, across England, in the approval of the Pension Fund Accounts as these can only be formally approved when the External Auditor also approves the main Council Accounts.

Consequently, on 3 August 2022 the Chair of the Scheme Advisory Board (SAB) wrote to the (then) Minister Responsible for the LGPS Paul Scully MP. The SAB letter urged the Government to support the separation of the Pension Fund Annual Accounts in England from those of their Administering Authority as has already happened in both Wales and Scotland. The SAB letter to Government included the following:

"The issues behind delays in the external audit of local authority accounts are much wider and not related to the preparation of pension fund annual accounts. The Board is firmly of the view that, so long as pension fund accounts remain part of the main local authority accounts, problems unrelated to pension fund accounts will continue to impact on the timely publication of the pension fund accounts…"

On 15 February 2023 the Minister then responsible for the LGPS, Lee Rowley MP sent a response to the SAB which indicated that the DLUHC was actively considering the SAB recommendation to completely separate the Pension Fund Annual Accounts of English LGPS Funds

"I recognise the scope and complexity of issues affecting external local audit, and the impact that this is having on reporting by local authorities and LGPS funds.…"

"I welcome the Board's advice and recommendation to consider the separation of main authority accounts and the pension fund accounts,.. I have asked my officials to consider the scope for developing this further."

As at March 2024 there had however been no progress in respect of the separating of Pension Fund Accounts from those of their Administering Authority. On 6 March 2024 SAB therefore again raised this issue by issuing a formal response to the DLUHC Consultation ***"Addressing the local audit backlog in England."*** This Consultation which was issued on 8th February 2024 and closed on 7 March 2024 was concerned with clearing the backlog in the publication of audited accounts of major local bodies in England which in the words of the Consultation *"has grown to an unacceptable level."* In its response SAB included the following:

"…The consistent delays in the completion of the audit of the administering authority's main accounts has had the effect of delaying the issuing of an audit opinion on the pension fund annual accounts."

"…so long as pension fund accounts remain part of the main local authority accounts, problems unrelated to the issuing of audit opinions on the pension fund will continue to impact on the timely publication of finalised pension fund accounts, along with the pension fund audit opinion."

“All LGPS pension funds are multi-employer schemes, with a typical single fund having over 200 different employers participating in the LGPS. Over 18,000 separate employers participate in the LGPS, and an increasing feature of the scheme is the extent to which almost two thirds of these employing bodies are commercial companies, not for-profit entities and academy schools/Multi-academy trusts, rather than local authorities. These employing bodies are subject to a wide range of different financial reporting frameworks which all require that LGPS pension liabilities should be recognized.”

“Where the pension fund audit has not been signed off simply due to the delay in clearing the administering authority’s audit, then the auditor of the scheme employers’ accounts will need to do additional work to gain assurance that the pension liability figures that have been provided by the pension fund to the employer can be relied on. Any uncertainty over the value of the pension liabilities may be material to a scheme employer, depending on a range of factors particular to that employer. This is avoidable and unnecessary additional cost for the employer as well as being a significant additional administrative burden for the pension fund in responding to queries and requests for information from the scheme employer’s auditor.”

“Partly because of this ongoing problem, the Board wrote over a year ago to the then Minister to recommend the separation of the pension fund annual accounts in England from the administering authorities’ own accounts, as is already the case for the LGPS in Scotland and Wales.”

“We understand that the Minister has agreed in principle to the separation of pension fund accounts and has asked officials to find a suitable legislative vehicle to achieve this. It is a well understood problem and the solution for the LGPS is clear – we are just waiting for it to be delivered.”

As at the time that the General Election was called (22 May 2024) DLUHC had made no announcement regarding the separation of Pension Fund Accounts in England from those of their Administering Authority. As at the date of this LGPS Update the new Government has made no statement on this issue.

In conclusion, there can be no doubt that until the Accounts of LGPS Funds in England are separated entirely from those of their Administering Authority there is an ongoing risk that there may be delays and additional work and expenditure for both LGPS Funds and LGPS Employers because of issues with the Administering Authority main Accounts.

7. Review of 2022 Actuarial Valuations by the Government Actuary

On 14 August 2024, the Government Actuary’s Department (GAD) published its review of the 2022 LGPS Actuarial Valuations. The main report is 56 pages long. There is also an Appendices paper of 64 pages and a 21 page Funding Analysis report.

The GAD was appointed by the Government to report under Section 13 of the Public Service Pensions Act 2013 in respect of the 2022 Actuarial Valuations of the Funds in the Local Government Pension Scheme in England and Wales (LGPS). They had previously undertaken this role in respect of the 2016 and 2019 LGPS Valuations.

The Executive Summary (pages 3 to 8 of the main report) includes the comments (on page 4) *"In aggregate, the funding position of the LGPS has improved since 31 March 2019 and the scheme appears to be in a strong financial position…"* and specifically that since the 2019 Valuation across the LGPS in England and Wales as a whole *"The aggregate funding level on… prudent local bases has improved from 98% (at 2019) to 106% (at 2022)"* and that *"The improved aggregate funding level is due in large part to strong asset returns over the 3 year period to March 2022…"*

Section 13 requires GAD to report on whether the following aims were achieved:

- **Compliance:** whether a 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 other Fund Valuations within the LGPS

- **Solvency:** whether the rate of Employer Contributions is set at an appropriate level to ensure the solvency of the 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, as measured on an individual Fund basis

The first two issues are concerned primarily with the methods of the four Actuarial firms (Aon, Barnett Waddingham, Hymans Robertson, and Mercer) who undertake Actuarial Valuations for LGPS Funds.

The issues of Solvency and Long Term Cost Efficiency are Fund specific. In respect of **Solvency** and **Long term cost efficiency** GAD looked at a range of metrics (12 in all, with 7 for Solvency and 5 for Long term cost efficiency) and then assigned a *"colour coded flag"* to each LGPS Fund in England and Wales for each metric. These range from Red to Amber to White to Green and are explained on page 11 of the main report. A Red flag indicated *"A material issue that may result in the aims of section 13 not being met..."* It is extremely pleasing to note that there were no red flags assigned to any LGPS Fund in England and Wales. An Amber flag indicates *"A potential 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 or long term cost efficiency."* Only three Funds across England and Wales (one English County and two in London) were Amber flagged This compared to four in 2019 (one English County and three in London). A White flag is *"An advisory flag that highlights a general issue* *but one which does not require an action in isolation..."* A Green flag indicates that *"There are no material issues…"* The total lack of red flags and the fact that out of over 80 Funds examined only three were Amber flagged clearly indicates the overall robustness, based on the GAD analysis, of the approach to funding issues of the LGPS across England and Wales. Based on GAD analysis all LGPS Funds in England and Wales met the aims of **Solvency** and **Long term cost efficiency.**

The Haringey Fund received a Green flag in respect of all 12 metrics for Solvency and Long term cost efficiency.

In summary, the main findings of the GAD report on the 2022 Valuations were:

- **Compliance -** Fund valuations were compliant with relevant regulations.

- **Consistency –** GAD were content that presentational consistency was *"evident"* in the 2022 valuations. GAD however also state *"… even given consistency in presentation…differences in underlying methodology and assumptions (which we call evidential inconsistency) mean that it is not possible to make a like for like comparison between funds"* and *"There is no indication of significant improvement in evidential consistency since the previous review. Local variations may merit different assumptions and the approaches and assumptions adopted appear compliant with the relevant requirements."* Therefore, GAD are not questioning the validity of the approach of any of the four Actuarial firms in relation to the Consistency requirement. However, they go on to state "*these differences will lead to different outcomes, for example in ongoing contribution rates. The Scheme Advisory Board (SAB) are facilitating a review of the Funding Strategy Statement Guidance…"* and GAD therefore **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."* GAD also recognised *"the significant progress made by funds and actuarial advisors in the presentation of climate risk analysis as part of the actuarial valuation process. We strongly promote the further development of climate risk analysis…"* and that "*The landscape in which the scheme operates is continually changing such that the scheme will face different challenges over time…"* GAD therefore **Recommended** that SAB *"continue to consider emerging issues and, where appropriate, whether guidance would be helpful to support greater consistency"* and *"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."*

- **Solvency –** Local Funding levels had continued to improve since the 2019 Valuation to an average level of 106% which "*reduces the current solvency concerns but we note future solvency risk remains an important consideration."* GAD have, however, raised no red or amber flags in relation to solvency. GAD indicate that solvency is more likely to be a potential issue for Funds that are in deficit. GAD also state that *"risks* *clearly remain particularly in the context of competing pressures on employer's budgets and noting the sensitivity of funding levels to future experience (especially investment market conditions").* GAD also raise the issue of the transfer of property assets by some Councils to their pension funds stating *"we note these are complex… care needs to be taken to ensure they are suitable investments for a pension fund…The governance around any such asset transfer arrangements requires careful consideration…"* Therefore, GAD **Recommended** *"that these arrangements are considered as part of the Funding Strategy Statement guidance review"* which SAB is undertaking.

- **Long term cost efficiency (LTCE) –** Fundamentally long term cost efficiency is concerned with whether the rate of Employer Contributions is set at an appropriate level to ensure the long-term cost efficiency of the Scheme, as measured on an individual Fund basis and as GAD state on page 41 of the main report *"relates to making sufficient provision to meet the cost of benefit accruals with an appropriate adjustment to reflect the funding position of the fund."* GAD further comment that *"The LTCE part of the 2019 section 13 review focused on deficits, and not deferring deficit payments too far into the future so that they affect future generations of taxpayers disproportionately. This reflected the aggregate funding position of the scheme at that time. Whilst this remains a key consideration, as more funds have moved into surplus at the 2022 valuations, the use of surpluses has been given greater consideration at this review. Our focus is on intergenerational fairness, and whether the current generation of taxpayers is benefiting from any surplus appropriately relative to future taxpayers."* In the 2022 report GAD have issued amber flags to two Funds *"in relation to deficit recovery periods"* and to one Fund where *"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 into the future (increasing the burden on future taxpayers)."* Given the number of LGPS Funds in surplus (at the 2022 valuation, 61 funds, over 70% of funds by number, were in surplus on a local basis, an increase from 24 at the 2019 valuation) the main GAD report on the 2022 Valuations gives considerable attention to the issue of surpluses and makes a **recommendation** in relation to both surpluses and deficits. GAD accepts that there are *"a range of reasonable uses of fund surpluses, with strategies varying by fund to manage their specific risks and circumstances."* However, GAD also state *"inconsistencies in outcomes across funds can arise where funds place different weights on the options for use of surplus. We support the SAB in facilitating a review of the guidance on Funding Strategy Statements with relevant stakeholders. We recommend that the treatment of surpluses and deficits, together with the governance on asset transfers, should be included as part of this review."* At pages 49 and 50 of the main report GAD has set out the approach it intends to use to assess how Funds have utilised surpluses at future valuations. This approach covers both *"Funds utilising surpluses too quickly"* and *"Funds retaining "large" surpluses."*

The Appendices document includes detailed results and GAD analysis covering all LGPS Funds in England and Wales.

The **Recommendations** as stated by GAD are:

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.

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19 September 2024