LONDON BOROUGH OF CAMDEN	WARD: ALL
REPORT TITLE: Triennial Valuation	
REPORT OF: Executive Director Corporate Services	
FOR SUBMISSION TO: Pension Committee	**DATE:** 21 September 2022

SUMMARY OF REPORT:

This report presents the initial whole fund results of the triennial valuation from the Pension Fund's actuary (Hymans Robertson).

Local Government Act 1972 – Access to Information
No documents required to be listed were used in the preparation of this report.

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RECOMMENDATIONS:

The Committee is requested to agree that the report be adopted for the purposes of the 2022 triennial valuation.

Signed by

Director of Finance ……………**Agreed** …………...

Date ……**12/09/2022**………….……

1. INTRODUCTION AND BACKGROUND

1.1. Every three years the Fund's assets and liabilities must be valued by a qualified actuary as set out in the regulations which govern the Local Government Pension Scheme (LGPS). The last valuation was undertaken in 2019 by our actuaries who are Hymans Robertson (Hymans).

1.2. The primary purpose of a valuation is to determine whether the Pension Fund has sufficient assets to meet its long-term pension liabilities. A scheme that is 100% funded would have sufficient assets (over time) to meet its current pension promises in the future, assuming the current assumptions are borne out in practice.

1.3. The actuary is required to certify the appropriate contribution rates each employer in the Fund must make over the next three years. This involves setting rates for all employers in the Fund (not just the Council) whose employees participate in the Fund whether these are community admission bodies (typically charities) or transferee admission bodies (typically contractors whose employees are entitled to public sector pensions) using the Local Government Pension Scheme (LGPS) regulations to determine benefits.

1.4. This report builds on the report to the July Committee setting out work reviewing the appropriateness of the discount rate used (4.4%), salary increases (3.2%) and the CPI inflation (2.7%). These assumptions build on thinking from previous valuations and give consistency whilst being prudent and realistic.

1.5. Appendix A details some of the work that Hymans have carried out in calculating the Triennial Valuation. Appendix B includes the full report from Hymans and is not for publication (as it contains commercially sensitive information and Hymans' intellectual property). This forms the initial valuation report from Hymans of the Fund's assets and liabilities as at 31 March 2022. The final results which will follow and contributions rates must be finalised for all employers and the Council before 31 March 2023. Once agreed the actuary will issue the final contribution report with a rates and adjustments schedule detailing each employer's individual contribution rate over the next three years starting with 2023/24.

2. RESULTS

2.1. The initial results of the triennial valuation from our actuary, Hymans Robertson, are attached in Appendix A. The Fund is grateful to the Pensions Shared service for preparing and submitting good quality data and the actuary for testing the veracity of this data and confirming the data is of a good standard and fit for the purposes of the valuation.

2.2. Hymans have modelled the potential future investment returns of the Fund's current investment strategy and shown the funding level results on a range of different discount rate (investment return) assumptions. However, the Fund is required to publish one funding level position and therefore needs to choose one discount rate. At the July Committee meeting, it was noted that the Fund had chosen to use the discount rate which has a 70% chance of being achieved. The discount rate used is 4.4% and assumes that over that period the investment strategy is not significantly changed or returns diluted by for example a move to a lower risk strategy (more bond type investments) which would result in lower returns.

2.3. Table 1 below shows that liabilities have increased since the last triennial valuation by £128m to £1.741bn. However, the assets have increased by £316m to £1.973bn. This means the surplus has increased from £43m in 2019 to £233m as at 31 March 2022.

TABLE 1 FUNDING LEVEL

	2019 £m	***2022 £m***	***Change £m***
Liabilities	-1,613	-1,741	-128
Assets	1,657	1,973	+316
Surplus/ (Deficit)	43	233	+190
Funding level	**103%**	**113%**	

2.4. The funding level has increased from 103% to 113%. Over this triennial valuation period the Fund's investment return has been c31% rather than the forecast return of 14.2%.

2.5. The implicit required investment return is now 3.7% per annum to reach 100% funding versus 4.3% at the last valuation.

2.6. The likelihood of the Fund's investment strategy meeting the required funding objective has improved from 72% at the last valuation to 78% now.

2.7. The driving force behind the stronger funding level has been stronger investment returns. This is despite increases in short to medium-term high inflation expectations. The pandemic has not significantly impacted liabilities.

2.8. At the last triennial valuation the discount rate was 4.5% (used to place a value in today's terms on liabilities that stretch out over decades). The assumption used at this valuation was 4.4%. Hymans estimate that there is a 70% likelihood of achieving this future investment return and is the same probability as modelled in the last valuation.

2.9. Hymans also show the sensitivity of the funding level to changes in inflation (consumer price inflation or CPI) and changes to longevity (how long members live). These are two key actuarial assumptions that impact the valuation and funding level.

3. NEXT STEPS

3.1. After this report has been agreed the actuary will proceed to assess each individual employer's contribution rates for the coming three financial years.

3.2. In the coming months the actuary and officers will be meeting collectively and individually with employers to set out the results of the triennial valuation and what this means for each employer and their contribution rates.

3.3. Once a set of final contribution rates have been agreed for all employers Hymans will issue a final valuation report with the official rates and adjustments certificate detailing individual employers' contributions. This must be issued by 31 March 2023.

4. RESPONSIBLE INVESTOR COMMENT

4.1. The Fund is very keen to understand and ensure that environmental risks are identified and considered by investment managers and underlying companies. These risks if not properly identified and mitigated could impact on the funds value and approach to deficit recovery and full funding.

5. ENVIRONMENTAL IMPLICATIONS

5.1. The Climate emergency will impact on investment strategy and increasingly presents risks in strategies, mandates and company business models which may impact on future value. The Fund is very conscious of these risks and tracks them in its risk register and lobbies managers and companies to ensure these risks are understood and managed. The actuary is also mindful of these risks and has modelled this in the Contribution Strategy report on the same agenda.

6. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES

6.1. The comments of the Executive Director Corporate Services have been incorporated into this report.

7. COMMENTS OF THE BOROUGH SOLICITOR

7.1. The Local Government Pension Scheme Regulations 2013 requires an Administering Authority to obtain an actuarial valuation of its fund every three years. The administering authority must obtain a report by an actuary in respect of the valuation, and a rates and adjustments certificate provided by the actuary. The report must contain a statement of the demographic assumptions used in producing the valuation, and how these assumptions relate to events which have actually occurred in relation to the scheme membership. The recommendations in this report are in accord with the Pension Committee legal and regulatory duties.

8. APPENDICES

APPENDIX A – 2019 Actuarial Valuation Initial Results – Part I

APPENDIX B – 2019 Actuarial Valuation Initial Results – Part II **(NOT FOR PUBLICATION)**