Government Actuary Department's Section 13 Valuation – Draft Results

Introduction

1. This report provides the Committee with the draft results from the Government Actuary Department's (GAD) valuation of the Cheshire Pension Fund under Section 13 of the Public Service Pensions Act 2013.

Recommendation

2. The Committee is asked to note and comment on the draft section 13 GAD valuation report.

Background

3. Under Section 13 of the Public Service Pensions Act 2013, the Ministry for Housing Communities and Local Government (MHCLG) are required to carry out a review of all LGPS local fund valuations to ensure they comply with four key criteria:

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 LGPS valuations
Solvency	Whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension 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, so far as relating to the pension fund

4. MHCLG commission GAD to carry out this analysis, based on the most recent triennial valuation data.

5. The Fund submitted data and information from the 2019 valuation to GAD in May 2020. GAD have used this data for their analysis which is summarised in the two-page draft GAD report attached as an appendix to this report.

6. The attachment sets out each of the checks GAD use to measure the funding plan against the solvency and long-term cost efficiency criteria (the compliance and consistency criteria are carried out by GAD at actuarial advisor level).

7. The results set out in the attachment are still subject to internal GAD reviews and may change, however GAD do not expect any changes to materially affect the results.

8. A fund's score is assessed under a range of metrics to identify potential issues in respect of solvency and long-term cost efficiency is colour coded or flagged, where:

- Green - indicates there are no material issues that may contribute to a recommendation for remedial action to ensure solvency or long-term cost efficiency
- Amber - indicates a potential issue should be recognised, but in isolation would not usually contribute to a recommendation for remedial action to ensure solvency or long-term cost efficiency
- Red - indicates a potentially material issue that may contribute to a recommendation for remedial action to ensure solvency or long-term cost efficiency

9. Members will note that that the Fund has received a clean bill of health for every metric, with no 'red flags' being raised. However, Members will also notice that there are two amber flags, one under 'Deficit Recovery Plan' and one under 'Increase in contribution rates'.

10. The flags are a result of GAD's analysis indicating that the overall fund contribution rate across all employers reduced at the 2019 valuation, whilst the deficit recovery end point, as a fixed date, has increased.

11. The Fund uses a rolling 20-year funding time horizon at each triennial valuation for most open employers e.g. Councils, Police, Fire, Town and Parish Councils and academies. This is reasonable in an open pension scheme when new benefits are continuing to be accrued and there is no crystallisation or employer exiting in the future. However, this means that under GAD's interpretation, the deficit recovery end date is now three years further in the future. Therefore, GAD view this as an extension of the deficit recovery timeframe.

12. The Fund actuary has previously voiced concerns that they are disappointed that GAD continue to use this measure and that GAD therefore expect an open pension scheme to have a continually reducing deficit recovery period.

13. GAD's metric also expects contributions towards a deficit to remain constant even if the deficit has been substantially reduced or eliminated by asset returns. Under GAD's metric the Fund therefore also has an amber flag as overall contribution into the Fund have reduced.

14. Members will be aware that overall contributions into the Fund reduced at the 2019 valuations due to the improved funding position and reductions were agreed to employer contribution rates for the Fund's stabilised employers (Councils, Police and Fire) who make up the majority of the Fund.

15. Both potential amber flags were highlighted to the Committee in March 2020 when the final valuation triennial valuation report was presented to the Committee.

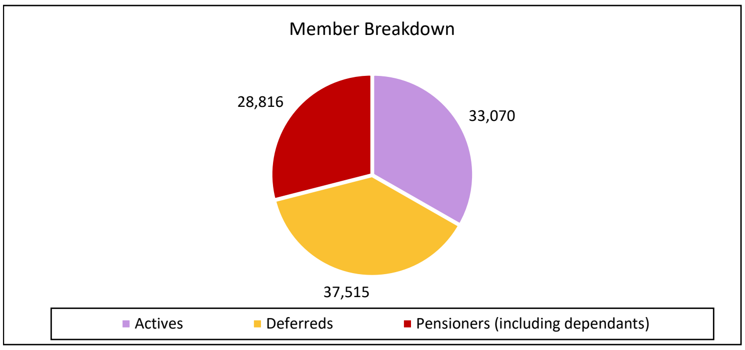
Next Steps

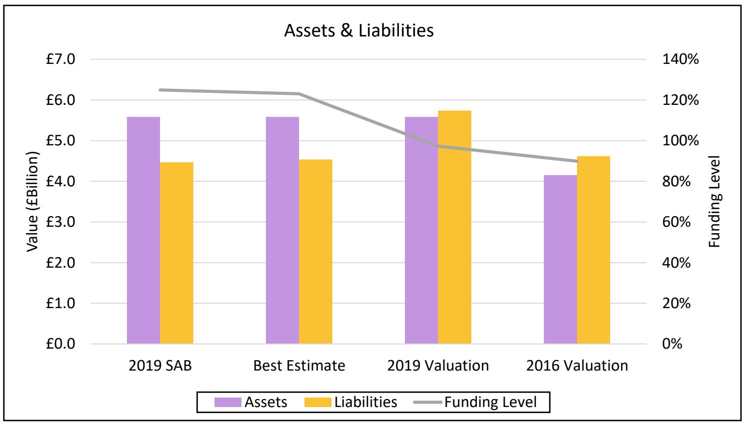
16. Officers understand that the full section 13 draft report is with MHCLG at the moment and will be shared with this Committee once published.

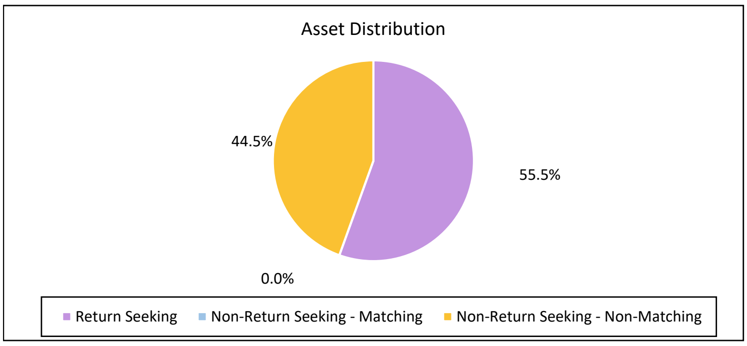
Government Actuary's Department

This document is intended only for discussions between GAD, the relevant Local Authority and their actuary

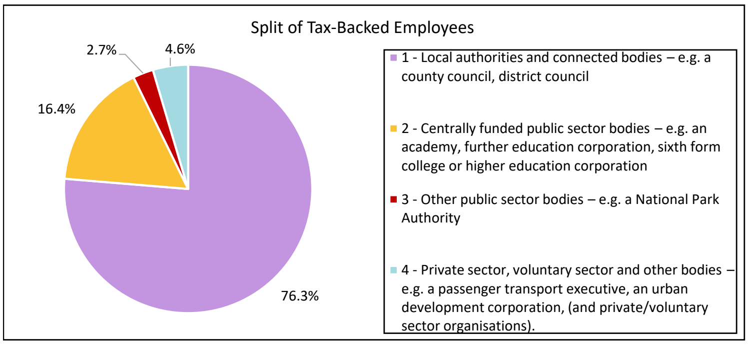
Cheshire Pension Fund

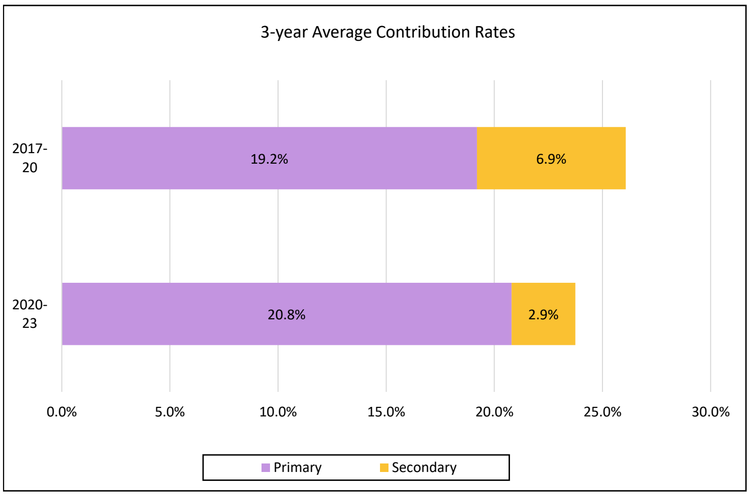


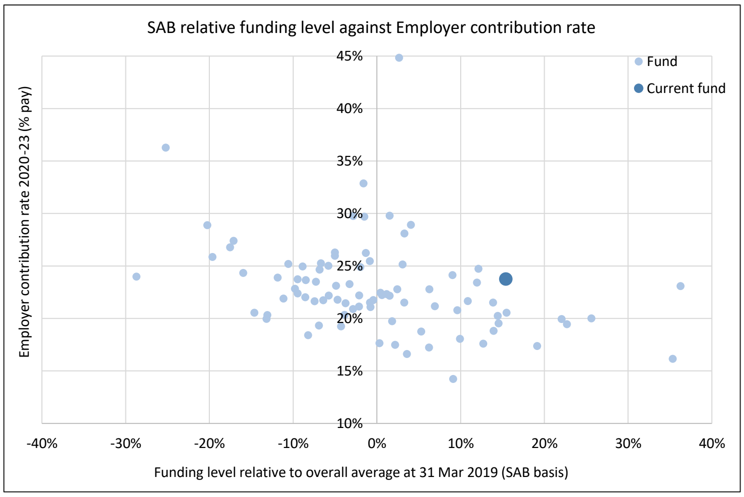




Local Authority	Core Spending (£m)	Core Spending (%)
Total	**£772.0**	**100.0%**
Halton	£99.5	12.9%
Warrington	£137.1	17.8%
Cheshire East	£250.4	32.4%
Cheshire West and Chester	£244.1	31.6%
Cheshire Fire	£40.9	5.3%







16 March 2021

At GAD, we seek to achieve a high standard in all our work. We are accredited under the Institute and Faculty of Actuaries' Quality Assurance Scheme. Our website describes the standards we apply.

Cheshire Pension Fund

Solvency Breakdown

Asset Shock

Assets are divided into the following classes:
Return seeking - Equity, Property, Infrastructure debt & other return seeking assets
Non-return seeking - All other assets
Return seeking assets are stressed by reducing them by 15%
New deficit allocated to tax−raising authorities
= (Pre−stress asset value − Post−stress asset value) × % Tax backed employees
This deficit is then spread over 20 years of annual payments, and compared to the fund's core spending

	£m
Pre-stress asset value	£5,582.8
Return seeking assets	£3,098.7
Non-return seeking assets	£2,484.1
Post-stress asset value	£5,118.0
Return seeking	£2,633.9
Non-return seeking	£2,484.1
Percentage of tax-backed employees (Group 1 + Group 3)	79.0%
New deficit allocated to tax raising authorities	£367.1
Annual deficit payment (spread over 20 years)	£19.8
Total core spending (pensionable payroll used where core spending unavailable)	£772.0
Deficit percentage of core spending	2.6%
Deficit percentage of core spending (allowing for post-asset shock surplus)	Surplus

Liability Shock

Non-matched liabilities are stressed by increasing them by 10%
New deficit allocated to tax−raising authorities
= (Post−stress liability value − Pre−stress liability value) × % Tax backed employees
Deficit is spread over 20 years and compared to the fund's core spending

	£m
Liability value pre-stress (GAD's best estimate calculation)	£4,537.1
Liability value post-stress	£4,990.8
New deficit allocated to tax raising authorities	£358.3
Annual deficit Payment (spread over 20 years)	£19.3
Deficit percentage of core spending	2.5%
Deficit percentage of core spending (allowing for post-liability shock surplus)	Surplus

Employer Default Shock

Determine funding level on GAD's best estimate basis
If the fund is in deficit, non-tax backed deficits are allocated to tax-backed
The non-tax backed deficit is spread over 20 years and compared to the fund's core spending

	£m
Deficit on best estimate basis	£0.0
Proportion of deficit allocated to non-tax raising authorities	£0.0
Annual deficit payment (spread over 20 years)	£0.0
Deficit percentage of core spending	Surplus
Fund Open/Closed	Open
SAB Funding Level	124.9%
Percentage of Non-Statutory Employees (Group 3 + Group 4)	7.2%

Long Term Cost Efficiency

Deficit Recovery Period

Implied deficit recovery period calculated on a standardised market consistent basis

Recovery period (years)	Surplus
Ranking of fund (out of 87 funds)	N/A

Required Return

Required investment return rates to achieve full funding in 20 years' time on the standardised market consistent basis

Required return under best estimate basis	2.4%
Ranking of fund (out of 87 funds)	10

Repayment Shortfall

Difference between the actual deficit recovery contribution rate and the annual deficit recovery contributions required as a percentage of payroll to pay off deficit in 20 years, where the deficit is calculated on a standardised market consistent basis

Annual deficit recovery payment as % of implied 31 March 2019 payroll	0.0%
Actual contribution rate paid less SCR on best estimate basis	5.2%
Difference	5.2%

Return Scope

Required investment return rates as calculated in required return, compared with the fund's expected best estimate future returns assuming current asset mix maintained

Expected return	3.5%
Required return	2.4%
Difference	1.2%
Ranking of fund (out of 87 funds)	38

Deficit Recovery Plan

Consideration of how the deficit recovery plan has changed compared to 2016 valuation

Valuation	*2016*	*2019*
Deficit Recovery End Point	2036	2039
2017-20 Average Contribution Rate		26.1%
2020-23 Average Contribution Rate		23.7%
Increase in contributions		
Difference in Average Contribution Rate between 2017-20 and 2020-23		-2.3%
Increase in deficit recovery end point (years)		3

Minor inconsistencies in totals may occur due to rounding.