


Non-Executive Report of the:  <b>Pensions Committee</b>  <b>Monday, 30 September 2024</b>	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Julie Lorraine, Corporate Director, Resources	<b>Classification:</b> Open (Unrestricted)
<b>Governance Report</b>	

<b>Originating Officer(s)</b>	Paul Audu, Head of Pensions and Treasury (Interim)
<b>Wards affected</b>	All

### Executive Summary

This report updates the Committee on governance and legislative issues affecting the Fund, developments in the LGPS and regulatory environment, policy changes and pooling.

### Recommendations:

The Pensions Committee is recommended to:

1. Note the Government Actuary's Department (GAD) 2022 Section 13 Report published on 14 August 2024 (**Appendix 1**);
2. Note the Government Actuary's Department (GAD) 2022 Section 13 Report published on 14 August 2024 – separate appendices (**Appendix 2**);
3. Note the TH Pension Fund's 2022 Section 13 results;
4. Note the implications of the GAD 2022 Section 13 report on the 2025 actuarial valuation;
5. Note the exit credit cases currently under consideration; and
6. Note the current government action to pursue efficiencies in the LGPS including a Pensions Investment Review and a Call for Evidence.

### 1. REASONS FOR THE DECISIONS

- 1.1. The matters contained in this report relate to Governance Compliance set out in LBTH's arrangements for discharging its responsibilities as Administering Authority of Tower Hamlets Pension Fund in accordance with Clause 55 of the Local Government Pension Scheme (LGPS) Regulations 2013.

### 2. ALTERNATIVE OPTIONS

- 2.1 Non-compliance with Governance requirement exposes the Fund and the Council, as administering authority, to action by the Pensions Regulator.

### 3. **DETAILS OF THE REPORT**

#### **Government Actuary's Department (GAD) Section 13 Report**

- 3.1 The Government Actuary was appointed by the Ministry of Housing, Communities and Local Government (MHCLG), formerly the Department for Levelling Up, Housing and Communities (DLUHC) to undertake the review of the 2022 actuarial valuations of LGPS Funds in England and Wales. It was carried out under section 13 of the Public Service Pensions Act 2013 and examined whether the Fund valuations have achieved the following aims:
- compliance
  - consistency
  - solvency
  - long-term cost efficiency
- 3.2 The Government Actuary's Department (GAD) published its 2022 Section 13 Report on 14 August 2024. The GAD 2022 Section 13 Report is included in this report (**Appendix 1**) together with the separate appendices containing the detailed results of all LGPS Funds in England and Wales (**Appendix 2**).
- 3.3 The key points are:
- The Section 13 Report shows each LGPS Fund's position relative to its peers based on some metrics; and
  - The report identifies some of the areas that could impact the results of the 2025 actuarial valuations.
  - Pages 12 and 13 of Appendix 2 illustrate all LGPS Funds' funding levels relative to the SAB standard result on a like-for-like basis. Chart B1 on page 12 shows the funding levels relative to the "local" bases of the Funds' own valuation reports. Chart B2 illustrates the differences when the funding levels are converted from the "local" bases to the standard basis relative to other Funds. It is important to note that the chart ignores the differences in Funds' investment strategies.
  - Table C2 (Pages 33-38) of Appendix 2 shows the solvency metrics indicating as follows:
    - Green flags – GAD has no concerns.
    - White flags – GAD has some general concerns but insufficient to warrant an Amber or Red flag.
    - Amber flags – potential material issue that Funds should be aware of.
    - Red flags - material issue that may undermine the aims of Section 13 being met.
    - Some white flags are raised under "SAB funding level", "asset shock" and "non-statutory employees"
  - Table D2 (pages 45-49) shows the long-term cost-efficiency metrics. Most Funds are green, but a few have been flagged white and amber for the following reasons:
    - Deficit period – the implied deficit recovery period too long

- Return scope – the required investment return is inconsistent with the Fund’s expected return based on the investment strategy.
- Deficit recovery plan – contributions should not have been reduced as they were.

### **Tower Hamlets Pension Fund 2022 Section 13 Results**

- 3.4 The 2022 Section 13 results for Tower Hamlets Pension Fund are on page 36 and page 48 of Appendix 2. The Fund received Green flags from GAD’s analysis, based on the data provided by the Fund Actuary in May 2023.

### **Implications for the 2025 Actuarial Valuation**

- 3.5 The publication of GAD’s 2022 Section 13 Report is much closer to the next valuation in 2025 compared to previous periods. GAD’s recommendations could impact the upcoming valuation process:
- SAB to consider whether greater consistency is needed to allow easier comparison between Funds and better understanding of risks.
  - SAB to consider emerging issues and whether guidance is required to support greater consistency, and that the climate change principles document continues to be developed ahead of the 2025 valuation.
  - SAB to consider whether further guidance is needed to support Funds in surplus and those in deficit – for the former in balancing different considerations and the latter, to ensure that the deficit recovery plans are demonstrably a continuation of the previous plans.

### **Exit Credit Considerations**

- 3.6 The Pensions Committee, at its meeting on 1 July 2024, considered the City Gateway Cessation report for South Quay College. The Committee resolved that officers should seek legal advice and further actuarial support to develop a clear rationale and justification for any determinations the Fund wishes to make in line with the Fund’s Exit Credit Policy.
- 3.7 Officers are working with the Council’s procurement team to procure legal support through the LGPS Framework.
- 3.8 Cessation valuations are crystallisation events. Therefore, from an actuarial perspective, the key issue is uncertainty with respect to inflation (short and long-term) and future investment return. Inflation levels impact the Fund as scheme benefits increase in line with the UK Consumer Price Index (CPI). The indexation assumption used the Fund Actuary derives from the approach adopted for the 2022 actuarial valuation set out in the Fund’s Funding Strategy Statement (FSS). The inflation assumption used has a direct effect on the value placed on the liabilities at exit.
- 3.9 The assumption for future investment return used for the cessation valuation is in line with the approach used for the 2022 actuarial valuation and set out in the FSS. It equates to the annualised yield on long-dated government bonds at the cessation date, with no further outperformance margin. Currently, this metric

(bond yields) is significantly higher than at the 2022 valuation because of the spike in global interest rates since 2022. This has led to much lower values placed on employers' liabilities at exit.

- 3.10 The Committee wishes to ensure that there's a very high probability that the assets left behind after employers exit the Fund are sufficient to pay members' benefits going forward. The exit credit cases currently under consideration and the Actuary's cessation valuations are summarised below:

Exiting Employer	Date Issued	Cessation Valuation Surplus (£)	Considered by Pensions Committee?
City Gateway (South Quay College)	30 April 2024	£248,000	Yes
Medequip	10 June 2024	£51,000	No
Gateway Housing	25 June 2024	£130,000	No

A cessation report for Greenwich Leisure (GLL) was issued on 23 April 2024, however this was an indicative cessation position at a specified date and on that basis an exit credit cannot be determined.

### **Efficiencies in Local Government and the management of Local Government Pension Scheme (LGPS) Funds.**

- 3.11 On 15 May 2024, the then Minister for Local Government, Simon Hoare, wrote to Chief Executives and Section 151 Officers of LGPS Administering Authorities in England seeking responses to the following themes:
- How Funds will complete the process of asset pooling to deliver greater scale; and
  - How administering authorities ensure that Funds are efficiently run, including governance considerations

- 3.12 The Letter from the then Minister for Local Government together with the draft response by The Society of London Treasurers (SLT) on behalf of London LGPS Funds is included in this report (**Appendix 3**).

### **Pensions Review**

- 3.13 The government has launched a pensions investment review with the LGPS the key focus. Links to the announcement and the Terms of Reference for Phase One published in July and August 2024 respectively are included in this report. The aim of the review is to 'boost growth and make every part of Britain better off'. The government is seeking to unleash the full potential of the LGPS to drive UK growth.
- 3.14 The Review will work in collaboration with the Ministry of Housing, Communities and Local Government (MHCLG) to consider how to unlock the investment potential of LGPS Funds and to tackle the estimated £2 billion spent on fees annually. The first stage of the review will examine actions including legislating to mandate pooling if insufficient progress is made by March 2025, and will report in the next few months and consider further measures to support the Pensions Bill. The Scheme Advisory Board (SAB) will be inviting all LGPS

Pension Committee Chairs to a Teams meeting on Monday 14<sup>th</sup> October 2024 for a discussion about pooling. The meeting will involve the Chair of the SAB, Cllr Roger Phillips and hopefully the Local Government Minister, Jim McMahon MP.

- 3.15 At the time of writing the government has published a Call for Evidence, inviting input, data and information from interested parties to inform the first phase of the Pensions Investment Review. The Call for Evidence closes on 25 September 2024. A link to the website is included in this report.

#### **4. EQUALITIES IMPLICATIONS**

- 4.1 There are no specific equalities implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration.

#### **5. OTHER STATUTORY IMPLICATIONS**

- 5.1 There are no specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration.

#### **Risk Management**

- 5.2 Section 249A of the Pensions Act 2004 requires the administering authority to manage risk by establishing and operating internal controls which are adequate for the purpose of securing that the scheme is administered and managed:
- (a) in accordance with the scheme rules
  - (b) in accordance with the requirements of the law.

#### **6. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 6.1 This is a noting report. There are no direct financial implications arising because of this report.

#### **7. COMMENTS OF LEGAL SERVICES**

- 7.1 Section 249B of the Pensions Act 2004 requires the administering authority to manage risk by establishing and operating internal controls which are adequate for the purpose of securing that the scheme is administered and managed:
- (a) in accordance with the scheme rules
  - (b) in accordance with the requirements of the law

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### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- Triennial Actuarial Valuation 2025 and Funding Update

### **Appendices**

- Appendix 1 – GAD Review of LGPS Fund Valuations as at 31 March 2022 under Section 13 (published 14 August 2024).
- Appendix 2 - GAD Review of LGPS Fund Valuations as at 31 March 2022 under Section 13 Appendices (published 14 August 2024)

### **Local Government Act, 1972 Section 100D (As amended)**

#### **List of “Background Papers” used in the preparation of this report.**

- [Chancellor vows 'big bang on growth' to boost investment and savings - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/chancellor-vows-big-bang-on-growth-to-boost-investment-and-savings)
- [Terms of Reference - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/terms-of-reference)
- [Pensions Investment Review: Call for Evidence - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/pensions-investment-review-call-for-evidence)

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