



Government  
Actuary's  
Department

# Local Government Pension Scheme Northern Ireland

## Section 13 Report as at 31 March 2019

April 2022

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# 1 Executive Summary

- 1.1 The Government Actuary has been appointed by the Department for Communities (DfC) to report under section 13 of the Public Service Pensions Act (Northern Ireland) 2014 in connection with the actuarial valuations of the Local Government Pension Scheme Northern Ireland ("LGPS NI" or "the scheme").
- 1.2 Section 13 requires the Government Actuary to report on whether the following aims are achieved:
  - > Compliance
  - > Consistency
  - > Solvency
  - > Long term cost efficiency
- 1.3 This is the second section 13 report for LGPS NI. Section 13 was applied for the first time to the scheme valuation as at 31 March 2016. We refer to this as the 2016 section 13 report. The 2016 section 13 report was published in March 2019.
- 1.4 This report is based on the actuarial valuation of the Northern Ireland Local Government Officers' Pension Fund ("the fund" or "LGPS NI pension fund"), other data provided by Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) and its actuary, Aon. We are grateful to these stakeholders for their assistance in preparing this report. We are committed to

preparing a section 13 report that makes practical recommendations to advance the aims listed above. We will continue to work with stakeholders to advance these aims and expect that our approach to section 13 will continue to evolve to reflect ever changing circumstances and feedback received.

## Progress since 2016

- 1.5 As part of the 2016 section 13 report, we concluded that the 2016 actuarial valuation of the LGPS NI and the resulting employer contribution rates achieved the aims set out in section 13 in respect of compliance, consistency, solvency and long-term cost efficiency. No recommendations were made in the 2016 section 13 report.
- 1.6 We are pleased to note that the LGPS NI continues in good health.

## Overall comments

- 1.7 The funding position of the LGPS NI has improved since 31 March 2016 and the scheme appears to be in a strong financial position, specifically:
  - > Total assets have grown in market value from £5.8 bn to £8.0 bn
  - > Total liabilities disclosed in the 2019 local valuation report amounted to £7.2 bn. The local valuation is required to be completed using prudent assumptions
  - > The aggregate funding level on the prudent local basis has improved from 96% to 112% (at 2019)

- > The improved funding level is due in large part to strong asset returns over the 3-year period to 31 March 2019. The funding level also improved due to change in the demographic assumptions, but this was offset by changes in financial assumptions
  - > The funding level on GAD's best estimate basis has reduced from 122% (at 2016) to 114% (at 2019). This reflects a lower expected asset return following a change in asset strategy and a change to the assumptions adopted. GAD's best estimate basis is the set of assumptions derived by GAD without allowance for prudence. In our view, there is a 50:50 likelihood of the actual experience being better or worse than the best estimate assumption
  - > We note that the size of the scheme has grown significantly over the three years to 31 March 2019. The ability of tax backed employers to increase contributions if this were required (as measured by the local authorities revenue funding) may not always keep pace with this growth. This could become a risk if, for example, there were a severe shock to return seeking asset classes
- 1.8 The following paragraphs provide further details on compliance, consistency, solvency and long-term cost efficiency, including some suggestions that DfC and NILGOSC may wish to note.

## Compliance

- 1.9 Our review indicated that the LGPS NI valuation was compliant with relevant regulations on the basis described in Chapter 3 of this report.

## Consistency

- 1.10 As there is only one fund in LGPS NI, there are no other actuarial valuations in respect of the fund to compare with.
- 1.11 The LGPS NI pension fund has included the standard dashboard agreed by funds in England and Wales, which makes comparison between the fund and LGPS England and Wales funds easier. NILGOSC may wish to consider whether to adopt a consistent approach with the emerging risks outlined in the LGPS England and Wales section 13 and proposed changes to the standard dashboard.
- 1.12 The 2016 and 2019 reports were compared for presentation and evidential consistency with regarding to information on: discount rate, contribution rate, deficit contributions and recovery plan. GAD did not observe any presentational or evidential inconsistency.

## Solvency

- 1.13 The solvency requirement is that employer contributions should be set at such a level as to ensure that the scheme's liabilities can be met as they arise.
- 1.14 In our view, the LGPS NI pension fund meets the conditions required to be able to demonstrate solvency. The fund is in a strong financial position and the funding level compares well with the LGPS England and Wales funds. However there are risks that remain which NILGOSC should consider.
- 1.15 Our engagement with NILGOSC gave us reassurance that the fund is aware of the risks we have identified in this report and has processes in place to manage and mitigate them. The risks identified include those that follow.

### *High proportion of non-statutory employers*

- 1.16 LGPS NI has a high proportion of non-statutory employers (e.g. Housing Associations, Universities, Colleges, Schools). If such employers exit the fund and it is not possible to obtain all or part of the exit payment due from them, costs fall back on the other fund employers.
- 1.17 NILGOSC actively manage this risk by:
- > setting different funding targets for different employers depending on their deemed security and likelihood of exit from the fund
  - > carrying out triennial assessments of employer covenant and changing employer contribution rates where necessary

- > monitoring the exit payment that would be due from each employer (if they were to have exited on the valuation date) and recognising those employers whose liabilities would become orphan on exit

### *Volatility and sourcing of employer contribution*

- 1.18 Solvency is dependent on employers being able to pay contributions as required, knowing that these contributions may increase or decrease significantly in future. Changes to the value of scheme assets may place upward or downward pressure on employer contribution rates. NILGOSC actively manage this risk by periodically reviewing its strategic funding target and its target asset allocation. The current strategy is to invest around 55% of the fund's assets in return seeking assets (a decrease from 86% in 2016). This would be expected to reduce the investment risk and hence volatility of employer contributions in the future.
- 1.19 Over the three years to 31 March 2019, the fund's assets have grown by 38% and liabilities by 18%. The size of the local authorities' revenue funding has grown at a slower pace (around 10%). We note a large proportion of employees within the fund are employed by the education authority, but we do not have detailed information on the growth of funding for NI education authorities. However, we have no reason to expect a significantly higher trend to that which has been observed with the majority of government departments in Northern Ireland. This increases the risk to the scheme if, for example, there was to be a sustained reduction in the value of return seeking assets. This represents a general increase in risk for the

scheme, so we provide a general risk comment, which was also included in the LGPS England and Wales section 13.

- 1.20 The following general risk comment highlights the ongoing risk that pension funding presents to local authorities. We are not suggesting NILGOSC and their advisors are unaware of this risk, but we have illustrated possible implications in the asset liability modelling which we undertook for the LGPS England and Wales section 13.

### General risk comment

Local authorities have finite resources and in recent years the size of pension funds has increased considerably more than local authority budgets. Given that pension funding levels change it is not unlikely that a period of increased pension contributions may be required at some point in the future.

If additional spending is required for pension contributions this may lead to a strain on local authority budgets.

We would expect that administering authorities and pension scheme committees are aware of this risk in relation to solvency and would monitor it over time. Administering authorities and pension scheme committees may wish to discuss the potential volatility of future contributions with employers in relation to overall affordability.

- 1.21 Risk from changes to the value of scheme assets and the scheme funding level remains. NILGOSC might want to consider if the remaining risk on employer contribution volatility risk is appropriately communicated to stakeholders, including employers.

### Long-term cost efficiency

- 1.22 The rate of employer contributions should be sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.
- 1.23 In our view, the LGPS NI pension fund meets the conditions required to be able to demonstrate long-term cost efficiency of the scheme. We note that it compares favourably against the majority of funds in England and Wales where we consider the SAB funding level together with the total employer contribution rate.
- 1.24 The surplus retention measure is white flagged (highlighting a general issue but one which does not require an action in isolation). Other measures including deficit reconciliation were flagged green.

### *Surplus Retention*

- 1.25 At the 2019 valuation, while the future service rate has increased, the total employer contribution rate has decreased as part of a strategy to gradually eliminate the surplus that has arisen in the fund. This measure highlights a general issue that the resulting contribution rate is below our best estimate future service contribution rate. As we do not believe this requires action in isolation this has been white flagged.

### *Deficit Reconciliation*

- 1.26 On a best estimate basis the fund is in surplus; therefore it has a green flag on the deficit period measure. We note that the maximum deficit recovery end point has been

maintained at 2037 for those employers still in deficit at the 2019 valuation and not on a flight path for closure of active participation. Where employers are on a flight path to closure the deficit recovery end point is aligned to the future expected working life of active members.

- 1.27 If at a future valuation employers remain in deficit and it was possible for the employer contributions to be reduced, we would expect that NILGOSC would again either maintain the deficit recovery end point or move it forwards, and not move it backwards.

## 2 Introduction

### **What is Section 13?**

**The Government Actuary has been appointed by the Department for Communities (DfC) to report under section 13 of the Public Service Pensions Act (Northern Ireland) 2014 in connection with the actuarial valuation of the Local Government Pension Scheme Northern Ireland (“LGPS NI” or “the scheme”).**

**This is the second formal section 13 report and sets out the Government Actuary’s findings following the fund valuation as at 31 March 2019.**

**Section 13 was applied for the first time to the scheme valuation as at 31 March 2016.**

### **What is the Local Government Pension Scheme Northern Ireland triennial valuation?**

**The LGPS NI pension fund is a funded scheme and periodic assessments are needed to ensure the fund has sufficient assets to meet its liabilities. Employer contribution rates may change depending on the results of valuations. Scheme regulations set out when valuations are to be carried out.**

**The LGPS NI pension fund is required to appoint its own fund actuary, who carries out the scheme’s valuation. The fund actuary uses a number of assumptions to value the liabilities of the fund. Costs are split between those that relate to the past (the past service cost) and those that relate to the future (the future service cost). The results of the valuation may lead to changes in employer contribution rates for both future and past service costs.**



## The Local Government Pension Scheme Northern Ireland and fund valuation

- 2.1 LGPS NI is a funded scheme governed by the [Local Government Pension Scheme Regulations \(Northern Ireland\) 2014](#) (the 'Regulations'). There is only one fund in the scheme which provides pensions and other benefits to employees who have worked in local government or for other scheme employers, and to their dependants. The fund is managed and administered locally by the Northern Ireland Local Government Officers' Superannuation Committee ('NILGOSC') established under section 1 of [Schedule 3](#) of the Regulations. NILGOSC must obtain an actuarial valuation of the scheme under Regulation 68 of the Regulations. Employer contributions are payable in accordance with the rates and adjustments certificate issued alongside the actuarial valuation.
- 2.2 The latest valuation of LGPS NI pension fund under Regulation 68 was as at 31 March 2019. The [valuation report](#) was signed on 30 March 2020.
- 2.3 This report was prepared in accordance with the [Funding Strategy Statement](#) which is prepared, maintained and published by NILGOSC under the Regulations.

### GAD's review and section 13

- 2.4 This report is addressed to DfC as the responsible authority for the purposes of subsection (4) of section 13 of the Public Service Pensions Act (Northern Ireland) 2014 ("the Act"). GAD has prepared this report to set out the results of our review of the 2019 funding valuation of the LGPS NI pension fund. This report will be of relevance to NILGOSC

and other employers, actuaries performing the valuation for the fund, the LGPS NI Scheme Advisory Board (SAB), Department of Finance (DoF) and the Chartered Institute of Public Finance & Accountancy (CIPFA), as well as other LGPS NI stakeholders.

- 2.5 Subsection (4) of section 13 requires the Government Actuary (as the person appointed by DfC) to report on whether the four main aims are achieved, namely:
- > Compliance: whether the fund's valuation is in accordance with the scheme regulations
  - > Consistency: As there is only one fund in LGPS NI, there are no other actuarial valuations in respect of LGPS NI to compare with
  - > Solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of LGPS NI
  - > 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 LGPS NI
- 2.6 Section 13 subsection (6) states that if any of the aims of subsection (4) are not achieved:
- a) the report may recommend remedial steps;
  - b) the scheme manager must—
    - (i) take such remedial steps as the scheme manager considers appropriate, and

- (ii) publish details of those steps and the reasons for taking them;
  - c) the responsible authority may—
    - (i) require the scheme manager to report on progress in taking remedial steps;
    - (ii) direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.
- 2.7 We have concluded that the 2019 actuarial valuation of the LGPS NI and the resulting employer contribution rates achieve the aims set out in Section 13 in respect of compliance, consistency, solvency and long-term cost efficiency. We have therefore not recommended any remedial steps in this report.

### Structure of the report

- 2.8 In the remaining sections in this report, we consider each of the four aims of section 13 for LGPS NI:
- > Compliance
  - > Consistency
  - > Solvency
  - > Long-term cost efficiency
- 2.9 The appendices to the report contain further information on the data and assumptions used for this exercise, section 13 of the Public Service Pensions Act 2014 and extracts from other relevant regulations.

- 2.10 This report may be read along with the [LGPS England and Wales section 13 report](#) (including the appendices to that report).

### Identifying if the aims of section 13 are met

- 2.11 We have looked at a range of metrics to identify potential issues in respect of solvency and long-term cost efficiency. The fund's score under each measure is colour coded or flagged, where:

## Key

**RED** indicates a material issue that may result in the aims of section 13 not being met. In such circumstances remedial action to ensure solvency and/or long-term cost efficiency may be considered.

**AMBER** indicates a potential material 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 and/or long-term cost efficiency.

**WHITE** is an advisory flag that highlights a general issue but one which does not require an action in isolation. It may have been an amber flag if we had broader concerns.

**GREEN** indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure solvency or long-term cost efficiency.

- 2.12 While they should not represent targets, these measures and flags help us determine whether a more detailed review is required; for example, we might have concern where multiple measures are triggered amber for the fund.
- 2.13 Where appropriate we have maintained consistency with the approach adopted in 2016, although we have also introduced an advisory flag, denoted white, that highlight a general issue but one which does not require an action in

isolation. A similar approach was adopted for our section 13 review of the LGPS England and Wales funds.

- 2.14 It should be noted that these flags are intended to highlight areas where risk may be present, or further investigation is required. For example, if an amber flag remained following that engagement, we believe this would relate to an area where an issue remains that NILGOSC and the pension board should be aware of. There is no implication that NILGOSC was previously unaware of any risk flagged or the action taken was inappropriate
- 2.15 A green or white flag (i.e. the absence of a red or amber flag) does not necessarily indicate that no risk is present and similarly the fact that we are not specifically suggesting remedial action does not mean that NILGOSC should not consider actions.
- 2.16 For the LGPS NI fund 2019 valuation:
- > In respect of solvency, all metrics were green flagged. Within this, however, we note that while the non-statutory members flag has changed from amber in the 2016 section 13 report to green now, it was only just below the amber threshold
  - > In respect of long-term cost efficiency, all metrics were green flagged, except surplus retention (a new metric) was white flagged.
- 2.17 The metric is white flagged due to a combination of:
- > the fund was in surplus on a local basis, and that as such employers are paying less than the standard contribution rate, and

- > the proportion of assets held in return seeking assets has reduced following the 2016 valuation resulting in a lower "best estimate" discount rate. Although we note this is also expected to reduce the volatility of investment returns.

### Limitations

- 2.18 We recognise that the use of data and models has limitations. For instance, the data that we have from valuation submission and publicly available financial information is likely to be significantly less detailed than that available to the scheme. Our risk assessment framework is designed to broadly assess scheme risks and decide on our engagement on an indicative basis.
- 2.19 Because of the nature of this exercise, the only post valuation events considered are those that may have already been taken into account in the valuation disclosure.
- 2.20 Further detail is provided in the solvency and long-term cost efficiency chapters and appendices.

### The role of the fund actuary and other stakeholders

- 2.21 Local valuation output depends on the local circumstances of the fund, NILGOSC's Funding Strategy Statements, and the actuary's work on the valuation.
- 2.22 It is not our role to express an opinion as to whether any concerns raised are driven by the local circumstances of the scheme, or the actions of authorities, their actuary, or other stakeholders. Nothing in this report should be taken

as criticism of authorities, their actuary, or other stakeholders.

### Data and assumptions

- 2.23 The metrics are based on publicly available data and data provided to GAD by or on behalf of NILGOSC.
- 2.24 Further details of the data used for the purpose of this exercise can be found in Appendix A of this report.
- 2.25 To make meaningful comparison of valuation results, we have referred to results restated on two bases:
- > The standard basis established by the LGPS England and Wales SAB, as used in the LGPS England and Wales section 13 report
  - > A market consistent best estimate basis derived by GAD based on the investment strategy for LGPS NI
- 2.26 Further details of both these bases are set out in Appendix B to this report.
- 2.27 The market consistent basis is GAD's best estimate as at 2019, based on our views of likely future returns on each asset class in the scheme. Future asset returns are uncertain and there is a wide range of reasonable views on what future asset returns will be and therefore what the best estimate discount rates should be. We have presented GAD's view above, but there are other reasonable best estimate bases that may give materially different results.

2.28 The use of these standard bases does not imply the bases are suitable to be used for funding purposes as we would expect a funding basis to be consistent with the current market condition and include prudence. We note that:

- > The LGPS England and Wales SAB standard basis is not consistent with current market conditions
- > Regulations and CIPFA guidance call for prudence to be adopted when setting a funding basis. Our best estimate basis does not include prudence and is based on the target asset weight of LGPS NI as at 31 March 2019

2.29 The local valuation and our calculations underlying this report are based on specific sets of assumptions about the future. Some of our solvency measures are stress tests but these are not intended to indicate a worst-case scenario.

### Engagement with stakeholders

2.30 In preparing this report, we are grateful for helpful discussions with and cooperation from:

- > DfC
- > NILGOSC
- > NILGOSC's actuarial advisors

2.31 We note that this report is GAD's alone, and the stakeholders above are not responsible for the content.

### Future review

2.32 We are grateful to stakeholders for their assistance in preparing the report. We are committed to preparing a section 13 report that makes practical recommendations to advance the aims in the legislation. We will continue to work with stakeholders to advance these aims and expect that our approach to section 13 will continue to evolve to reflect ever-changing circumstances and feedback received.

### Other important information

2.33 The previous section 13 report was published on 18 March 2019, following the valuations as at 31 March 2016, which can be found in the [Local Government Pension Scheme: review of the actuarial valuations of funds as at 31 March 2016](#).

2.34 This work has been carried out in accordance with the applicable Technical Actuarial Standard: TAS 100 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

2.35 GAD has no liability to any person or third party for any act or omission taken, either in whole or in part, on the basis of this report. No decisions should be taken on the basis of this report alone without having received proper advice. GAD is not responsible for any such decisions taken.

2.36 We understand and assume that there is no regulatory authority assumed by or conferred on the Government Actuary in preparing this or any future section 13 report, and neither does the appointment to report under section

13 give the Government Actuary any statutory power to enforce actions on scheme managers (or others).

2.37 In preparing this report, we are aware that our analysis may be affected by risks arising from the impact of the COVID-19 pandemic. At this stage, the full impact of the COVID-19 pandemic is not known and will remain uncertain until further evidence has been established. No margins have been applied to the analysis to reflect these risks unless otherwise stated.

## 3 Compliance

### Key Compliance findings

- > The report contained a statement of compliance
- > The report contained confirmation of all material requirements of regulation 68
- > We concluded the aims of section 13 were achieved under the heading of Compliance in terms of valuation reporting

Under section 13(4)(a) of the Act, the Government Actuary must report on whether the actuarial valuations of the funds have been completed in accordance with the scheme regulations.

In this Chapter:

- > We set out our approach to reviewing compliance and our conclusions from that review

- 3.1 Section 13 requires that GAD must report on whether the actuarial valuation of the LGPS NI fund has been completed in accordance with the scheme regulations.
- 3.2 We found that the actuarial valuation report for Northern Ireland Local Government Officers' Pension Fund has been completed in accordance with Regulation 68 and have therefore concluded that the compliance criteria of section 13 have been achieved. We note that this is not a legal opinion.
- 3.3 Our review of compliance is focused on the actuarial valuation report produced under Regulation 68. We have not, for example, systematically reviewed the Funding Strategy Statement prepared under Regulation 64.
- 3.4 We carried out the same checks for the LGPS NI pension fund as LGPS England and Wales funds. These checks are detailed in Appendix A of the appendices to the England and Wales section 13 report. Note that the Appendix in England and Wales refers to Regulation 62 of the LGPS Regulations 2013; however the relevant scheme regulation for LGPS NI from the [Local Government Pension Scheme Regulations \(Northern Ireland\) 2014](#) is Regulation 68.
- 3.5 The comments we make in subsequent chapters on consistency, solvency and long-term cost efficiency do not imply that we believe that the valuations are not compliant with the regulations. These comments relate only to whether the valuation appears to achieve the aims of section 13.



## 4 Consistency

### Key Consistency findings

- > **As there is only one fund in LGPS NI, there are no other actuarial valuations in respect of LGPS NI to compare with.**
- > **The actuarial advisor to NILGOSC has helpfully provided a dashboard in their report, which helps facilitate comparison with funds in England and Wales.**
- > **In our opinion the information provided in the 2019 valuation report is not inconsistent to that provided in the 2016 report, in relation to presentational and evidential consistency.**
- > **We recommend that NILGOSC considers what steps could be taken in relation to wider emerging issues, for example on climate change, and whether a consistent approach to LGPS England and Wales is appropriate.**
- > **LGPS NI stakeholders may wish to consider whether there are any proposals in relation to the dashboard and emerging issues that may be of interest for LGPS NI, following recommendations made by the LGPS England and Wales Scheme Advisory Board.**

**Section 13 requires that GAD must report on whether each actuarial valuation has been carried out in a way which is not inconsistent with other valuations. As there is only one fund in LGPS NI, there are no other actuarial valuation to compare with**

**In this Chapter we:**

- > Refer to the recommendations made in the LGPS England and Wales section 13 and consider whether LGPS NI should adopt a consistent approach on emerging issues**
- > Consider evidential and presentational consistency between the valuation reports at different dates**

### **Presentational Consistency:**

Information may be presented in different ways in different reports, and sometimes information is contained in some reports but not others, so readers may have some difficulties in locating the information they wish to compare. We call this presentational inconsistency.

### **Evidential Consistency:**

When the reader has located the relevant information (e.g. funding levels), differences in the underlying methodology and assumptions mean that it is not possible to make a like for like comparison. We call this evidential inconsistency. We believe that local circumstances may merit different assumptions (e.g. financial assumptions are affected by the current and future planned investment strategy, different financial circumstances leading to different levels of prudence adopted) but that wherever possible information should be presented in a way that facilitates comparisons.

- 4.1 Section 13(4)(b) requires GAD to report on whether the actuarial valuation has been carried out in a way which is not inconsistent with other actuarial valuations of the pension fund completed under the scheme regulations.
- 4.2 However, as there is only one fund in LGPS NI, there are no "other actuarial valuations" in respect of LGPS NI to compare with.
- 4.3 We considered consistency among the valuation reports of the 88 local authority funds for LGPS England and Wales as at 31 March 2019. There were inconsistencies on the presentation of disclosures, the assumptions adopted and the approach used for specific calculations, for example McCloud, among the funds advised by different firms of actuarial advisors. Going forward we noted that in addition to the treatment of McCloud there were other emerging issues, such as Covid-19 and climate change that funds will need to consider. We made recommendations to the LGPS England and Wales Scheme Advisory Board to consider steps to ensure greater consistency to better facilitate comparison. LGPS NI stakeholders may wish to consider whether there are any proposals that may be of interest for LGPS NI, once the outcome of that process is known.
- 4.4 GAD also acknowledge that the LGPS NI pension fund has included the standard LGPS England and Wales dashboard, which facilitates comparison. We note suggested changes to the standard dashboard were made following the section 13 review in England and Wales. LGPS NI stakeholders should consider if it is appropriate to adopt such changes once these have been agreed.
- 4.5 GAD has also undertaken an analysis on whether the 2016 and 2019 valuation reports are presentationally and evidentially consistent.
- 4.6 For presentational consistency we have considered whether the information on contribution rates, surplus/deficit contributions and recovery periods are presentationally consistent in 2016 and 2019 reports (similar to the approach adopted in LGPS England and Wales across funds in 2019). In our opinion the information is not inconsistent.
- 4.7 For evidential consistency we have considered how one of the key assumptions, the discount rate, has been derived. The 2016 and 2019 reports explain the approach and enable rates to be compared between valuations. In our opinion the information is not inconsistent.

## 5 Solvency

### Key solvency findings

- > In our view LGPS NI meets the conditions required to be able to demonstrate solvency.
- > The funding level on the local basis has improved since 2016, primarily due to asset outperformance. This asset performance means that the scheme is now well over 100% funded on the local funding basis.
- > No solvency flags have been raised due to the improvements in funding position and the de-risking of the asset strategy.
- > We note LGPS NI has a high proportion of non-statutory employers which creates a risk to the fund with NILGOSC are actively managing
- > A general risk comment was raised in the England and Wales section 13 report that in recent years funds have increased considerably relative to the size of the local authority budgets. This also appears to be the case for LGPS NI, therefore we have included the general risk comment in this report.

Under section 13(4)(c) of the Act, the Government Actuary must report on whether the rate of employer contributions to the pension fund is set at an appropriate level to ensure the solvency of the pension fund.

In this Chapter:

- > We provide a definition of solvency
- > We provide some background on solvency issues, and some of the measures and flags we have used in considering them

## Definition of solvency

5.1 We do not regard that solvency means that a pension fund should be 100% funded at all times. Rather, in line with the definition in [CIPFA's Funding Strategy Statement Guidance](#) which we adopt for the purposes of section 13, we consider that the rate of employer contributions has been set at an appropriate level to ensure solvency of the pension fund if:

- > the rate of employer contributions is set to target a funding level for the whole fund (assets divided by liabilities) of 100% over an appropriate time period and using appropriate actuarial assumptions

and either:

- > employers collectively have the financial capacity to increase employer contributions, and/or the fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%

or

- > there is an appropriate plan in place should there be, or there is expected in future to be, no or a limited number of fund employers and/or a material reduction in the capacity of fund employers to increase contributions as might be needed

5.2 Solvency is dependent on employers being able to pay contributions as required, knowing that these contributions may increase or decrease significantly in future. In the case of tax-raising employers, accommodating contribution variability is a political, as well as financial, consideration.

We consider it is important that NILGOSC and LGPS NI employers understand the potential range of future cost, so that they can understand the affordability of potential future contribution requirements.

5.3 We carried out an asset liability modelling exercise as part of the England and Wales section 13 report. This might be of interest to NILGOSC to gain some insight into the potential pressures on the employer contribution rate that they may wish to manage in some way.

5.4 NILGOSC might want to consider whether any further actions are needed to communicate the risk of employer contribution volatility to stakeholders, including employers.

## Background on solvency

5.5 The funding level on the valuation basis has improved from 96% to 112% since the 2016 valuation. On GAD's best estimate basis, the funding level as at 2019 was 114%. This means that we expect there is a greater than 50% chance that existing assets will be sufficient to cover benefits in respect of accrued service when they fall due.

5.6 We have assessed risk against a range of measures. These are risks of potential contribution volatility that NILGOSC and employers should be aware of. They should consider actions required to manage these risks but accepting the risk may be a valid option.

5.7 The fund should be aware of its solvency position, to ensure that relevant plans are in place to be able to pay benefits when they fall due and employers are able to accommodate potential future increases in contributions.

## Solvency measures

5.8 We have tested the following five metrics under solvency. These include tests in relation to potential emerging risks and stress tests in relation to what may happen if certain events occur. The results for LGPS NI are also included in the table below.

**Table 5.1: 2016 Solvency measures**

Consideration	Measure Used	Results
<b>Risks already present:</b>		
The relative ability of the fund to meet its accrued liabilities	<b>Funding level on England and Wales SAB standard basis:</b> Comparison of the LGPS NI pension fund's funding level with the mean funding level for the England and Wales funds, both funding levels calculated using the England and Wales SAB standard basis, as set out in Appendix B	+14.2%
The extent to which the fund continues to be open to new members. If a fund is closed to new members or is highly mature, we will focus on the ability to meet additional cash contributions	<b>Open fund:</b> Whether the fund is open to new members	Yes
The proportion of fund employers without tax raising powers or without statutory backing	<b>Non-statutory members:</b> The proportion of members within the fund who are/were employed by an employer without tax raising powers or statutory backing	24.4%

Consideration	Measure Used	Results
<b>Emerging risks</b>		
The cost risks posed by changes to the value of fund assets (to the extent that these are not matched by corresponding changes to the value of fund liabilities)	<b>Asset shock:</b> The change in average employer contribution rate (on GAD's best estimate basis) expressed as a percentage of payroll after a 15% fall in the value of return-seeking assets	Surplus after shock (3.5%)
The impact that non-statutory employers defaulting on contributions would have on the income of sponsoring employers as a whole	<b>Employer default:</b> The change in average employer contribution rate (on GAD's best estimate basis) as a percentage of payroll if all employers without tax raising powers or statutory backing default on their existing deficits	In surplus so no deficit arises from assumed employer default

5.9 Further details on the calculations underlying the numbers are given in Appendix C of the England and Wales section 13 Appendices. There are some LGPS NI specific differences which are detailed below:

- > The data for non-statutory employees was provided by NILGOSC, further details are included in Appendix A of this report.
- > The changes in average employer contribution rates for asset shock and employer default shock are expressed as a percentage of payroll for the LGPS NI pension fund. It was expressed in terms of core-spending power or financing data for English funds and Welsh funds respectively.

### Asset Shock

- 5.10 Asset shock considers the scenario of a sustained reduction in the value of return seeking assets. For example, this could be a market correction in which asset values do not immediately recover, and therefore cannot be absorbed by a change in assumptions. In this scenario we model the additional contributions that would be required to meet the emerging deficit (as opposed to the total contributions required following the shock – i.e. we are looking at where there is a risk of large changes to the contribution rate, rather than a risk of the total contribution rate exceeding some threshold).
- 5.11 A shock, which generates high additional contributions as a proportion of payroll, generates a flag as this may indicate that the fund may be less likely to be able to absorb

substantial contribution increases without affecting core services.

- 5.12 Although the asset shock resulted in a reduction to the funding level of the fund on GAD's best estimate basis, it remained in surplus post shock (the funding level was in excess of 100% after the shock). The fund is therefore green flagged on this measure. We note the reduction in the funding level following the asset shock was equivalent to a 3.5% increase in employer contributions. In practice we might not expect these pressures to feed directly into changes in employer contribution rates, because there are various ways in which such a cost pressure might be managed, at least in the short term.
- 5.13 We sought further information from NILGOSC about how they are managing this risk. Investment risk is included in NILGOSC's funding strategy statement. In 2017 NILGOSC undertook a review of its strategic funding target and its target asset allocation and reduced its investment in growth assets following that review. The current strategy is to invest around 55% of the fund's assets in return seeking assets, down from 86% in 2016.
- 5.14 This indicates that the fund is aware of the impact of investment risk on contribution volatility and is actively managing it. In preparing this report we have considered only the risk management processes; we have not reviewed and do not comment on the appropriateness of the current investment strategy.

### Non-statutory employers

- 5.15 In the case of tax raising employers, accommodating contribution variability is a political, as well as financial, consideration. We consider it is important that NILGOSC and other employers understand the potential range of future cost, so that they can understand the affordability of potential future contribution requirements.
- 5.16 We consider taxpayer-backed employers to be of stronger covenant value than other employers. It is important, in this context, that NILGOSC and other employers understand the potential cost that may fall on taxpayers in the future if employers without statutory backing or tax raising powers are unable to meet their required contributions and those with such powers become responsible for the accrued costs.
- 5.17 Data for this measure was provided by NILGOSC. The measure is based on the proportion of active members who are employed by employers, which do not have tax raising powers. We have assumed that broadly the following employers are tax backed:
- > Council
  - > Education Authority
  - > Employers with guarantee from council
  - > Employers with departmental backing

And we have considered broadly the following employers to be non-tax backed following discussions with NILGOSC



(although we have been made aware of certain exceptions):

- > Housing Associations
- > Universities
- > Colleges
- > Schools
- > Northern Ireland Housing Executive
- > Translink
- > Employers from other authorities without council guarantee or departmental backing

- 5.18 At 24.4%, LGPS NI has a greater proportion of non-statutory employers than most LGPS England and Wales funds. Most of these employers are public bodies which receive public funding but do not have powers to raise taxes. LGPS NI is just below the threshold of 25% for an amber flag.
- 5.19 If such employers exit the fund, they are liable to make an exit payment to cover their liabilities in the fund (net of any associated assets). However, if it is not possible to obtain all or part of the exit payment due from them, costs fall back on the other scheme employers. We noted in the 2016 report that unpaid exit payments amounted to £3.6 million between 2013 and 2016. Unpaid exit payments are expected to be between £2.2 to £6.9 million over the period 2016 to 2019. This means that other employers are

essentially insuring for the risk posed by these employers without charging any premium for it. NILGOSC acts to mitigate this risk as discussed below, and we would expect as a result of such actions the unpaid exit payments will reduce over time.

- 5.20 NILGOSC has recognised this risk in the fund's Funding Strategy Statement. To manage this risk, NILGOSC formally assesses the covenant strength of its scheme employers on a triennial basis. This exercise is completed in advance of each actuarial valuation and is used to inform the valuation and subsequent grouping of employers for contribution rate setting purposes. A five-point scale is used to categorise each employer which ranges from "A - Strong" to "E - Weak".
- 5.21 There are different funding targets, depending on each employers' circumstances and in particular whether the employer is likely to exit the fund and what would happen to the liabilities on exit. Those employers that are on a flight path to closure are treated on an ongoing orphan basis, while those employers that are not already on a flight path to closure and who do not have a subsumption commitment are treated on the Intermediate Funding basis. At the 2019 valuation, the left-service discount rate used for the main employer group funding target was 4.1% p.a. whereas that for the intermediate funding target and ongoing orphan body funding target were 3.1% p.a. and 1.6% p.a. respectively which leads to higher contributions than stronger employers in similar circumstances in the main group.
- 5.22 This helps to improve their funding level and reduce any balance that would be due as an exit payment, therefore

reducing the impact of any potential default and a call on other employers. However, there is a limit to contributions that can be charged to these employers: if contributions are too high it might trigger insolvency (or similar issues), leading to the employer exiting the fund and the need for an exit payment.

- 5.23 All employers complete an annual update as part of the covenant assessment process which is reviewed for material changes. This review can lead to employers being moved to different covenant strength categories at the next valuation.
- 5.24 We understand that the assessment of the employer covenant strength process is part of NILGOSC's internal control system which is evaluated annually by an external firm of internal auditors, and in addition it has been subject to a specific audit.
- 5.25 We understand that at triennial valuations the fund actuary provides the exit payment that would be due from each employer (if they were to have exited on the valuation date). NILGOSC monitor these figures as part of its process for managing this risk. For example:
- > Employers with a combination of relatively weak employer covenant and a high exit payment (if they were to exit) may merit the most attention in the process of monitoring employer covenant
  - > The total exit payment for each of the five categories of employers from "A - Strong" to "E - Weak" could be used at each valuation to monitor changes in this risk over time: increases / decreases to the total value of

exit payments in respect of weaker employers indicate that the value at risk is increasing / decreasing.

### **Volatility and sourcing of employer contributions**

- 5.26 The asset and employer shock measures have highlighted the volatility risk to employers. Whilst the change in the investment strategy has reduced these risks, the fund is required to make additional contributions if the funding deteriorates. In such circumstances, the local authorities would be required to pay their share of the additional costs.
- 5.27 Over the three years to 31 March 2019, the scheme assets and liabilities have increased by 38% and 18% respectively, whereas the local authority revenue has increased by around 10%. We note a large proportion of employees within the fund are employed by the education authority, but we do not have detailed information on the growth of funding for NI education authorities. However, we have no reason to expect a significantly higher trend to that which has been observed with the majority of government departments in Northern Ireland. If this was to continue this could result in a significant risk to the local authorities who have finite levels of resource available.
- 5.28 We have included the general risk comment to highlight the risk noting it is not specific to the LGPS NI pension fund.

## General risk comment

Local authorities have finite resources and in recent years the size of pension funds has increased considerably more than local authority budgets. Given that pension funding levels change it is not unlikely that a period of increased pension contributions may be required at some point in the future.

If additional spending is required for pension contributions this may lead to a strain on local authority budgets.

We would expect that administering authorities and pension scheme committees are aware of this risk in relation to solvency and would monitor it over time. Administering authorities and pension scheme committees may wish to discuss the potential volatility of future contributions with employers in relation to overall affordability.

- 5.29 Risk from changes to the value of scheme assets and the scheme funding level remains. NILGOSC might want to communicate the remaining risk on employer contribution volatility to stakeholders, including employers.

## 6 Long-term cost efficiency

### Key long-term cost efficiency findings

- > In 2019 we raise no amber or red flags, but we do raise one white flag under our surplus retention measure
- > The white flag is due in part to the contribution rate reduction (as a result of the fund's surplus) leading to overall recommended contributions below the standard contribution rate on our best estimate basis

Under section 13(4)(c) of the Act, the Government Actuary must report on whether the rate of employer contributions to the pension fund is set at an appropriate level to ensure the long-term cost efficiency of the scheme, so far as relating to the pension fund.

In this Chapter:

- > We provide a definition of long-term cost efficiency
- > We provide some background on long-term cost efficiency issues, and some of the measures and flags we have used in considering them

### Definition of long-term cost efficiency

6.1 In line with the definition in [CIPFA's Funding Strategy Statement Guidance](#), which we adopt for the purposes of section 13, we consider that the rate of employer contributions has been set at an appropriate level to ensure long-term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

### Background on long-term cost efficiency

6.2 Long-term cost efficiency relates to not deferring payments too far into the future so that they affect future generations of taxpayers disproportionately.

### Long-term cost efficiency measures

- 6.3 We developed a series of relative and absolute considerations to help assess whether the contributions met the aims of section 13 under long-term cost efficiency. These are broadly consistent to those adopted for the England and Wales section 13 exercise.
- 6.4 The table below gives details of these measures along with the results for the LGPS NI pension fund.

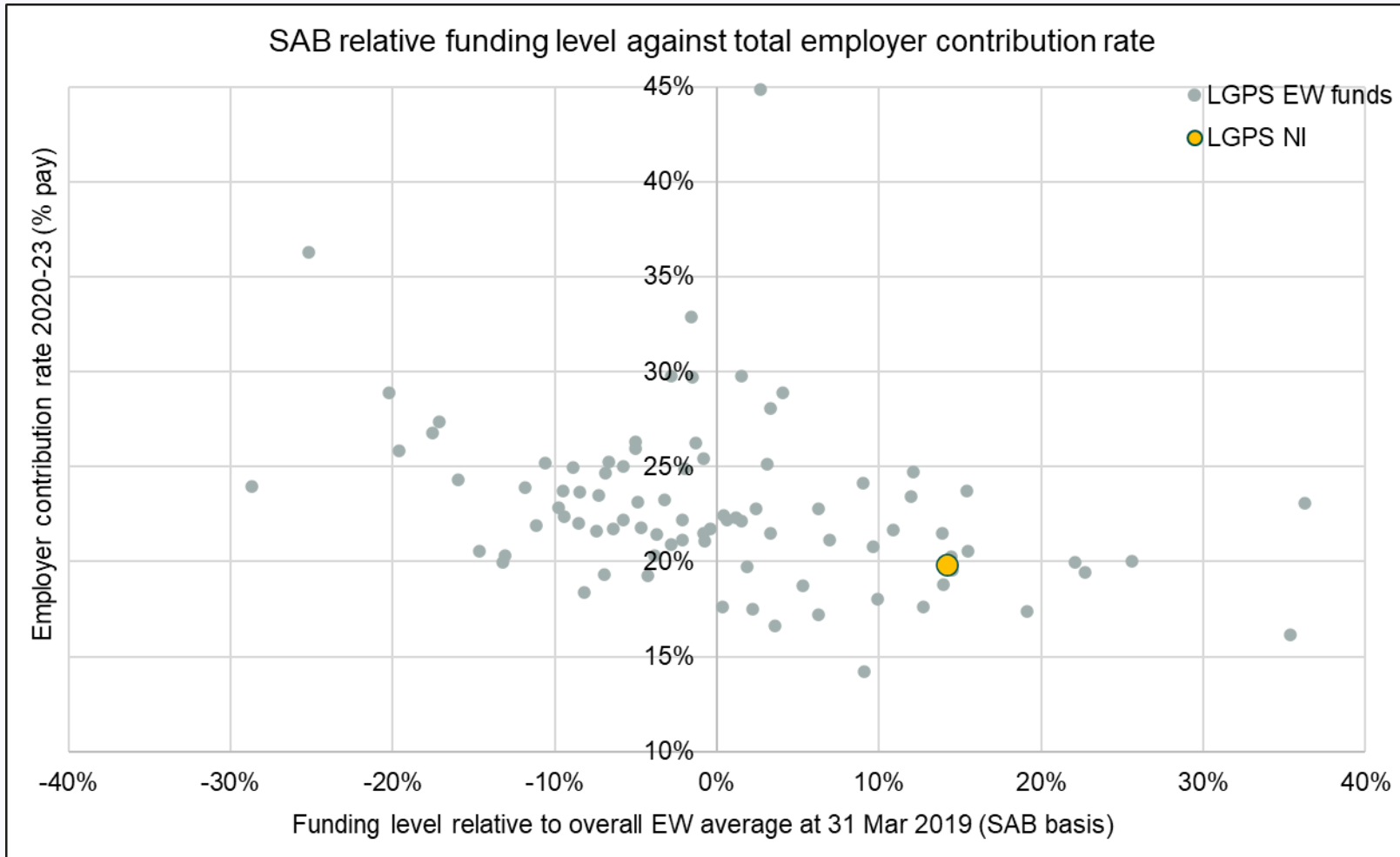
**Table 6.1: Long-term cost efficiency Considerations and Measures**

Consideration	Measure Used	Result
<b>Relative considerations</b>		
The implied deficit recovery period	<b>Deficit Period:</b> Implied deficit recovery period calculated on GAD's best estimate basis	Surplus
The investment return required to achieve full funding	<b>Required Return:</b> The required investment return rate to achieve full funding in 20 years' time on GAD's best estimate basis	3.4% p.a.
Contributions from funds not in deficit are not likely to lead to a deficit arising in the future when assessed on the best estimate basis	<b>Surplus retention:</b> The average employer rate (set at the 2019 valuation for a fund) less the future service contribution rate on GAD's best estimate basis (a flag will be considered where this metric is negative)	-1.2%
The pace at which the deficit is expected to be paid off	<b>Repayment Shortfall:</b> The difference between the actual deficit recovery contribution rate and the annual deficit recovery contributions required as a percentage of payroll to pay off the deficit in 20 years, where the deficit is calculated on GAD's best estimate basis	Surplus

Consideration	Measure Used	Result
<b>Absolute Considerations:</b>		
The extent to which the required investment return (above) less the estimated future return being targeted by a fund's investment strategy is above a minimum value	<b>Return Scope:</b> The required investment return rate, as calculated in required return above, compared with the fund's expected best estimate future returns, assuming current strategic asset mix is maintained	0.5%
The extent to which any deficit recovery plan can be reconciled with, and can be demonstrated to be a continuation of, the previous deficit recovery plan, after allowing for actual fund experience	<b>Deficit Reconciliation:</b> Confirmation that the deficit period can be demonstrated to be a continuation of the previous deficit recovery plan, after allowing for actual fund experience.	Green

- 6.5 Further details are given in Appendix D of the England and Wales section 13 Appendices, with slight differences as listed below:
- > The cashflow data underlying the required return measure was obtained from the revenue accounts information provided by NILGOSC.
  - > The best estimate basis used in these calculations is specific to the target asset allocation for the LGPS NI. Further details on this are given in Appendix B.
- 6.6 In England and Wales section 13 report, we considered the spread of the SAB funding level against employer total contributions (i.e. future contribution rate plus or minus average past service contributions over the next three years, expressed as a percentage of pensionable earnings) for each fund. We have included the LGPS NI pension fund in chart 6.1.

**Chart 6.1: Comparison of LGPS NI and LGPS EW funds SAB funding level vs employer contribution rate**



- 6.7 Other things being equal, we might expect lower contributions to be associated with higher funding levels. This pattern can be seen in the chart above. However, there is a wide range of contribution rates being paid by funds with similar fund levels. This variation could be due, to an extent, to different funding strategies, to attitudes to risk, and to payroll sizes relative to liabilities.

### **Deficit Reconciliation**

- 6.8 Generally we would not normally expect to see employer contribution rates decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery end point being extended further into the future (increasing the burden on future taxpayers). This was not the case for the fund where at a fund level it was in surplus. Further we note that for any employers in deficit (not on a closure flight path) the maximum deficit recovery period has reduced by three years.
- 6.9 If at a future valuation employers remain in deficit and it was possible for the employer contributions to be reduced, we would expect that NILGOSC would again either maintain the deficit recovery end point or move it forwards, and not move it backwards.



## Appendix A: Data provided

- A.1 Data was received from the fund actuary for LGPS NI broadly as detailed in Appendix F of the Appendices to the England and Wales section 13 report. There were some LGPS NI specific differences. These are detailed below:
- A.2 Results on the England and Wales SAB standard basis were provided by the LGPS NI fund actuary.
- A.3 Data in respect of the breakdown of members employed by employers with tax raising powers was received from NILGOSC.
- A.4 There was no core spending data available for LGPS NI, so we did not use this information in our metrics. Instead, we based our metrics on payroll, which was provided by the LGPS NI fund actuary.
- A.5 There were no SF3 statistics available for LGPS NI. We used information from the [Northern Ireland Audit Office's Local Government Auditor's Report -2021](#).
- A.6 The primary contribution rate refers to the "common" or future service contribution rate and the secondary contribution rate refers to the past service rate in the LGPS NI pension fund valuation report.
- A.7 The data underlying the position of the funds in England and Wales (which have been used for information purposes within this report) are set out in Appendix F of the Appendices to the England and Wales section 13 report.

## Appendix B: Assumptions

- B.1 Each section of analysis contained in the main report is based on one of three sets of assumptions:
- > The LGPS NI pension fund assumptions, as used in the fund's 2019 actuarial valuation
  - > The LGPS England and Wales SAB standardised set of assumptions (E&W SAB standard basis)
  - > A best estimate set of assumptions
- B.2 Details of the LGPS NI assumptions can be found in the NILGOSC actuarial valuation report as at 31 March 2019. Details of the E&W SAB standard basis and the standardised best estimate basis can be found in the table below.

**Table B.1: E&W SAB standard basis and Best Estimate basis**

<b>Assumption</b>	<b>E&amp;W SAB standard basis</b>	<b>Best Estimate basis</b>
<b>Methodology</b>	Projected Unit Methodology with 1-year control period	Projected Unit Methodology with 1-year control period
<b>Rate of pension increases</b>	2% per annum	2% per annum
<b>Public sector earnings growth</b>	3.5% per annum	3.5% per annum
<b>Discount rate</b>	4.45% per annum	3.9% per annum
<b>Changes to State Pension Age (SPA)</b>	As legislated	As legislated
<b>Pensioner Baseline mortality</b>	Set locally based on Fund experience	As set out in GAD's 2016 valuation
<b>Mortality improvements</b>	Core CMI_2018 with long term reduction in mortality rates of 1.5% per annum	Improvements in line with those underlying the ONS 2018-based principal population projections for the UK
<b>Age retirement</b>	Set locally based on Fund experience	As set out in GAD's 2016 valuation

<b>Assumption</b>	<b>E&amp;W SAB standard basis</b>	<b>Best Estimate basis</b>
<b>Ill health retirement rates</b>	Set locally based on Fund experience	As set out in GAD's 2016 valuation
<b>Withdrawal rates</b>	Set locally based on Fund experience	As set out in GAD's 2016 valuation
<b>Death before retirement rates</b>	Set locally based on Fund experience	As set out in GAD's 2016 valuation
<b>Promotional salary scales</b>	None	As set out in GAD's 2016 valuation
<b>Commutation</b>	We have used the SAB future service cost assumption of 65% of the maximum allowable amount	As set out in GAD's 2016 valuation
<b>Family statistics</b>	Set locally based on Fund experience and other evidence	Set locally based on Fund experience

B.3 The financial assumptions for the best estimate basis are based on GAD's neutral assumptions for long term inflation measures and asset returns. The discount rate is based on the target asset weight of LGPS NI assets held as at 31 March 2019.

B.4 We have summarised the target asset split and broad asset categorisation in table B.2.

**Table B.2: LGPS NI target asset split and broad asset allocation assumed**

<b>Asset Class</b>	<b>Target weight</b>	<b>Broad asset class assumed</b>
Equity	34.0%	Equity
Property	15.0%	Property
Infrastructure	7.5%	Infrastructure
Index-linked gilt	14.5%	Index-linked gilts
Absolute return bond	14.5%	Investment grade corporate bonds
Multi asset credit	14.5%	High-yield bonds

B.5 These neutral assumptions are not deliberately optimistic nor pessimistic and do not incorporate adjustments to reflect any desired outcome. We believe there is around a 50% chance of outcomes being better and a 50% chance of outcomes being worse than these assumptions imply.

- B.6 Future asset returns are uncertain and there is a wide range of reasonable views on what future asset returns will be and therefore the best estimate discount rate should be. We have presented GAD's house view above, but there are other reasonable best estimate bases which may give materially different results.

## Appendix C: Section 13 Regulations

### Section 13 of the Public Service Pensions Act (Northern Ireland) 2014

#### 13 Employer contributions in funded schemes

- (1) This section applies in relation to a scheme under section 1 which is a defined benefits scheme with a pension fund.
- (2) Scheme regulations must provide for the rate of employer contributions to be set at an appropriate level to ensure—
  - (a) the solvency of the pension fund, and
  - (b) the long-term cost-efficiency of the scheme, so far as relating to the pension fund.
- (3) For that purpose, scheme regulations must require actuarial valuations of the pension fund.
- (4) Where an actuarial valuation under subsection (3) has taken place, a person appointed by the responsible authority is to report on whether the following aims are achieved—
  - (a) the valuation is in accordance with the scheme regulations;
  - (b) the valuation has been carried out in a way which is not inconsistent with other valuations under subsection (3);
  - (c) the rate of employer contributions is set as specified in subsection (2).
- (5) A report under subsection (4) must be published; and a copy must be sent to the scheme manager and (if different) the responsible authority.
- (6) If a report under subsection (4) states that, in the view of the person making the report, any of the aims in that subsection has not been achieved—
  - (a) the report may recommend remedial steps;
  - (b) the scheme manager must—
    - (i) take such remedial steps as the scheme manager considers appropriate, and
    - (ii) publish details of those steps and the reasons for taking them;
  - (c) the responsible authority may—
    - (i) require the scheme manager to report on progress in taking remedial steps;
    - (ii) direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.
- (7) The person appointed under subsection (4) must, in the view of the responsible authority, be appropriately qualified and must not be—
  - (a) an employee of the responsible authority;

- (b) the scheme manager;
- (c) a scheme member; or
- (d) an employee of the Department of Finance and Personnel.

## Appendix D: Extracts from other relevant regulations

### Regulations 64 and 68 of 'The Local Government Pension Scheme Regulations (Northern Ireland) 2014

#### **Funding strategy statement**

- 64.**— (1) The Committee shall, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.
- (2) The statement shall be published no later than 31st March 2015.
- (3) The Committee shall keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy set out in the statement and, if revisions are made publish the statement as revised.
- (4) In preparing, maintaining and reviewing the statement, the Committee shall have regard to—
- (a) the guidance set out in the document published in October 2012 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called “Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme 2012” ; and
  - (b) the statement of investment principles published by the Committee under regulation 10 (statement of investment principles) of the 2000 Regulations.

#### **Actuarial valuations and certificates**

- 68.**— (1) The Committee shall obtain—
- (a) an actuarial valuation of the assets and liabilities of the pension fund, as at 31st March 2016 and on 31st March in every third year afterwards;
  - (b) a report by an actuary in respect of the valuation; and
  - (c) a rates and adjustments certificate prepared by an actuary.
- (2) Each of those documents shall be obtained before the first anniversary of the date (“the valuation date”) as at which the valuation is made or such later date as the Department may agree.
- (3) A report under paragraph (1)(b) shall contain a statement of the demographic assumptions used in making the valuation and the statement shall show how the assumptions relate to the events which have actually occurred in relation to members of the Scheme since the last valuation.
- (4) A rates and adjustments certificate is a certificate specifying—
- (a) the common rate of employers' contribution;
  - (b) any individual adjustments; and
  - (c) any amount calculated in accordance with paragraph (8),

for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.

- (5) The common rate of employers' contribution is the amount, if any, which in the actuary's opinion, should be paid to the pension fund so as to secure the fund's solvency by all contributing bodies whose employees contribute to it expressed as a percentage of the pay of their employees who are active members, or for any other employing authority or former employing authority which does not employ active members but is liable to contribute to the fund under regulation 70(12) and (13) (special circumstances where revised actuarial valuations and certificates shall be obtained) is such amount as is payable under regulation 70(13).
- (6) The actuary shall have regard to—
- (a) the existing and prospective liabilities arising from circumstances common to all those bodies;
  - (b) the desirability of maintaining as nearly constant a common rate of employers' contribution as possible;
  - (c) the current version of the Committee's funding strategy statement mentioned in regulation 64 (funding strategy statement); and
  - (d) the desirability of securing long-term cost efficiency of the pension fund.
- (7) An individual adjustment is any percentage or amount by which, in the actuary's opinion, contributions at the common rate of employer's contribution should, in the case of—
- (i) a particular contributing body;
  - (ii) a particular guarantor; or
  - (iii) both employing authority and inheriting body if agreed under regulation 71 (apportionment),
- be increased or reduced by reason of any circumstances peculiar to that contributing body, guarantor or both of them and, where necessary, reflects inherited liabilities being attributable or no longer attributable.
- (8) Where inherited liabilities are attributable to a guarantor or any other person which is not an employing authority, at the direction of the Committee, the actuary shall calculate such amount which in the actuary's opinion such a guarantor or other person that is not an employing authority should pay by reason of its assumption of responsibility for these inherited liabilities.
- (9) A rates and adjustments certificate shall contain a statement of the assumptions on which the certificate is given as respects—
- (a) the number of members who will become entitled to payment of pensions under the provisions of the Scheme; and
  - (b) the amount of the liabilities arising in respect of such members, during the period covered by the certificate.



- (10) The Committee shall provide the actuary preparing a valuation or a rates and adjustments certificate with the consolidated revenue account of the pension fund and such other information as the actuary requests.