Brent	**Pensions Fund Sub-Committee** 05 October 2022
	Report from the Corporate Director Finance and Resources

2022 Valuation - Employer Contribution Strategy

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	PART EXEMPT - Appendix 1 is exempt as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: “Information relating to the financial or business affairs of any particular person (including the authority holding that information)"
No. of Appendices:	One • Review of LB Brent Contribution Strategy (exempt from publication)
Background Papers:	N/A
Contact Officer(s): (Name, Title, Contact Details)	Minesh Patel, Corporate Director Finance and Resources Ravinder Jassar, Deputy Director of Finance Flora Osiyemi, Head of Finance Sawan Shah, Senior Finance Analyst

1.0 Purpose of the Report

1.1 This report presents analysis from the Fund’s actuary regarding the contribution rate strategy for the Council for the 3 years from 1 April 2023.

2.0 Recommendation(s)

That the Pensions Fund Sub-Committee:

2.1 Approve the employer contribution rate for the next three financial years for Brent Council, as set out in section 3.15 of this report and Appendix 1.

3.0 Detail

3.1 Every three years, a formal valuation of the whole Fund is carried out under Regulation 62 (1) of LGPS Regulations 2013 to assess and examine the ongoing financial position of the Fund. Its purpose is to value the assets and liabilities of each individual employer and the pension fund as a whole, with a view to setting employer contribution rates which will result in each employer's liabilities becoming as close to fully funded as possible over the agreed recovery period outlined in the Funding Strategy Statement (FSS).

3.2 In line with the valuation process, the council commissioned a contribution rate modelling exercise to allow the Officers to consider a long term funding strategy for the stabilised employers within the Fund, that is, Brent Council, local authority schools and most academy schools in Brent.

3.3 The Fund actuary (Hymans Robertson) considers the following factors when setting contribution rates:

- The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies).
- The **time horizon** required is the period over which the funding target is achieved. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;
- The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

3.4 There is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to maintain reasonably stable employer contribution rates to be able to run their organisations appropriately.

3.5 The Fund permits options such as stabilisation, a mechanism to limit employer contribution rate variations from year to year, where the Administering Authority has reasonable confidence that an employer will still be able to meet its obligations for many years to come. This currently only applies to the London Borough of Brent.

3.6 As part of the contribution rate modelling, the Fund actuary has considered downside risk (a permanent fall in asset values).

3.7 A similar exercise was completed in the 2019 valuation when it was agreed to freeze the contribution rate at 35% for the financial years 2020/21 – 2022/23.

3.8 Four contribution rate scenarios for the Council were modelled under 5,000 different outcomes for future market and economic conditions. The contribution rate scenarios are projections of how Council contributions may increase or decrease over time. The scenarios modelled are:

- Freeze contributions for 3 years and then revert to stabilisation;
- Step down contributions by 1% in each of the next three years and then stabilisation;
- Step up contributions by 1% in each of the next three years and then stabilisation;
- Step down contributions by 1.5% in each of the next three years and then a wider stabilisation parameter in the following years.

3.9 The contribution rate scenarios have been reviewed from four different perspectives:

- 20 year time horizon – in line with the 2019 valuation;
- 17 year time horizon – considering progression since to 2019;
- Impact of asset shock (10% reduction in asset values);
- Impact of lump sum contributions.

3.10 Hymans measure the four scenarios against two measures - Likelihood of being fully funded at the end of the deficit recovery period and average funding levels in the worst 5% of modelled scenarios.

3.11 The full results are shown on pages 23-26 in restricted Appendix 1.

3.12 The results are generally positive and suggest that a rate in the range of 30 35% is broadly the “right level”. Stepped reductions of either 1% or 1.5% of pay each year (i.e. combined reduction of 3-4.5% of pay over the triennial period) give acceptable results although it should be appreciated there is a reasonable chance that reductions would need to be reversed later. Lump sum contributions only make a small difference to the results. The impact of an asset shock also does not change any of the conclusions.

3.13 The contribution strategies have also been modelled with reference to climate change risk. The results are worse when stressed under the three different climate scenarios, however the likelihood of success over the funding horizon in all three scenarios is greater than or equal to 75%.

3.14 Based on the results of this modelling work and discussions with the Fund Actuary and Council officers, officers propose to reduce the employer contribution rate by 1.5% per year for the 3 years up to 31 March 2026 because there is an acceptable likelihood of success (in excess of 75%) and acceptable downside risk. Further detail is provided in the full version of this report attached in restricted Appendix 1.

3.15 This report recommends to approve the contribution rate for the next three financial years for Brent Council, as 33.5% for 2023/24, 32% for 2024/25 and 30.5% for 2025/26.

4.0 Financial Implications

4.1 Employer contributions are the single largest component in the Pension Fund’s yearly cash inflow. Appropriate contribution rates by the various employers are necessary for the Pension Fund to improve its funding level.

4.2 The Fund actuary has modelled 4 different contribution rate scenarios for the Council and the results support reductions in Council contribution rates over the next three years. Stepped reductions of 1% or 1.5% of pay each year are acceptable and have a high likelihood of success over the funding time horizon.

5.0 Legal Implications

5.1 The triennial valuation is a statutory process conducted every three years that ensures the Pension Fund is both compliant with LGPS regulations and has a viable long-term funding strategy. The setting of employer contribution rates feeds in to achieving a viable long-term funding strategy, with the Council ensuring it has a robust Funding Strategy Statement and Investment Strategy Statement.

6.0 Equality Implications

6.1 Not applicable.

7.0 Consultation with Ward Members and Stakeholders

7.1 Not applicable.

8.0 Human Resources

8.1 Not applicable.

<u>Report sign off:</u>

Minesh Patel
Corporate Director Finance and Resources