

PENSION CONTRIBUTION RATE 2023

Presented by the Head of Finance

EXECUTIVE SUMMARY

In October 2022 the Authority received the results of the Triennial Pension Fund Valuation from the London Pension Fund Authority (LPFA) alongside the new employer minimum contribution rate to become effective from 1 April 2023 (see Appendix A to this report).

RECOMMENDATIONS

Members Approve: (1) the employer contribution rate of 13.8% as set out in paragraph 5 and in the valuation report at Appendix A to this report; and.

Members Note: (2) the valuation report at Appendix A to this report.

BACKGROUND

1 In July 2022 the London Pension Fund Authority (LPFA) wrote to the Authority explaining the funding categorisation in preparation for the Triennial Pension Fund Valuation.

This Authority is categorised as **Category A**, and although the grading criteria was amended for this valuation, the grade is unchanged from the previous valuation in 2019. The covenant grade determines the discount rate which is used to price employers' pension liabilities: a higher discount rate reduces the 'present value' of liabilities, (and vice-versa), and this mechanism directly affects employers' contributions in the subsequent inter-valuation period. To a large extent the grade is determined by the nature of the organisation, for example tax-raising entities are categorised as A grade 'automatically'. The covenant grade notification is attached at Appendix C to this report.

2 In October 2022 the LPFA wrote to the Authority setting out the new funding strategy and this is attached at Appendix B to this report for information. The funding strategy sets out the aims of the fund alongside the key risks, controls and responsibilities of the parties as well as links to investment policies.

- 3 On 26 October 2022 Barnet Waddingham LPP issued the preliminary results of the Triennial Pension Fund Valuation which included the new proposed minimum employer contribution rates to become effective from 1 April 2023 (see Appendix A to this report).
- 4 The Authority's current contribution rate, which was set at the 2019 Valuation is 15.6%, and has been the rate payable since 1 April 2020.

RESULTS OF TRIENNIAL VALUATION

- 5 In terms of funding levels, the general position has improved, with the LPFA Fund overall funding level now standing at 124.7%, compared to 105.7% at the 2019 valuation. The preliminary results as at 31 March 2022 for Lee Valley Regional Park Authority shows it has a funding surplus of £9.00m at 31 March 2022, relating to a funding level of 117.0%, compared to a funding deficit of £0.55m at 31 March 2019 relating to a funding level of 98.6%.
- 6 Therefore the proposed rate for the three year period April 2023 to March 2026 for Lee Valley Regional Park Authority is 13.8%.
- 7 This rate has been calculated using the following assumptions:
 - the employer is open to new members;
 - the employer is Category A for the purpose of funding; and
 - monetary contributions are assumed to be paid monthly.

ENVIRONMENTAL IMPLICATIONS

- 8 There are no environmental implications arising directly from the recommendations in this report.

FINANCIAL IMPLICATIONS

- 9 The estimated annual saving to the Authority of the reduction in the contribution rate from 15.6% to 13.8% is £80,000 for existing employees and this has been incorporated into the Medium Term Financial Forecast. This will be considered as part of the overall budget/levy paper which will be presented to Members in January 2023.
- 10 The employer rate payable will only affect the contributions the Authority make over the next three financial years. The contribution rate for the pass through tripartite admission agreement between the Authority, LPFA, and Greenwich Leisure Limited (GLL) was fixed for the duration of the Leisure Services Contract as 19.5% and reflects the fact that the scheme was only for employees TUPE transferring to GLL and closed to new members.

HUMAN RESOURCE IMPLICATIONS

- 11 There are no Human Resources implications arising directly from the recommendations in this report. Employee contribution rates are set at the following scales for 2022/23, but are determined annually by LPFA and may change for 2023/24.

Band	Pensionable Pay	Contribution Rate
1	Up to £15,000	5.50%
2	£15,001 to £23,600	5.80%
3	£23,601 to £38,300	6.50%
4	£38,301 to £48,500	6.80%
5	£48,501 to £67,900	8.50%
6	£67,901 to £96,200	9.90%
7	£96,201 to £113,400	10.50%
8	£113,401 to £170,100	11.40%
9	£170,101 or more	12.50%

LEGAL IMPLICATIONS

- 12 There are no legal implications arising directly from the recommendations in this report.

RISK MANAGEMENT IMPLICATIONS

- 13 The assumptions, risks and controls are set out in the LPFA funding strategy statement attached at Appendix B to this report. This includes assumptions around salary and price inflation, mortality rates and also the McCloud judgement allowance.

The amending regulations to address the remedy to LGPS benefits under the McCloud judgement have not yet been made. However guidance has been issued for the 2022 valuations, and the liabilities calculated include an allowance for the McCloud remedy.

The assumptions included in this valuation are based on market conditions at the valuation date of 31 March 2022. Whilst there have been some significant changes against these over the past 9 months, due to the significant surplus in the current fund, the three year pension valuation and contribution rate updates, and annual review of employee bandings and rates, there is less risk to the overall fund liquidity.

- 14 The pass through arrangement between the Authority and GLL is a risk sharing arrangement such that the Authority is ultimately responsible for any deficit in respect of the transferring members. The contribution rates payable by GLL were calculated at a level expected to allow full funding. Should there be any deficit at the end of the LSC, the Authority would be responsible for this, which may entail a premium on the Authority's contribution rate, or a capital payment.

EQUALITY IMPLICATIONS

- 15 There are no equality implications arising directly from the recommendations in this report.

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LIST OF ABBREVIATIONS

LPFA London Pensions Fund Authority

LSC Leisure Services Contract
GLL Greenwich Leisure Limited

APPENDICES ATTACHED

Appendix A Triennial Pension Fund Valuation
Appendix B Funding Strategy Statement
Appendix C Covenant Grading



**403 Lee Valley Regional Park
Authority**

**31 March 2022 valuation
employer results schedule**

London Pensions Fund Authority Pension Fund

Barnett Waddingham LLP

26 October 2022

Introduction

This schedule is provided to London Pensions Fund Authority as administering authority to London Pensions Fund Authority Pension Fund (the Fund). It has been generated from our online employer results modelling tool **Illuminate Me**. It may be shared with Lee Valley Regional Park Authority (the Employer) but it does not constitute advice to them. The Fund is part of the Local Government Pension Scheme (LGPS).

The purpose of this document is to provide a summary of the preliminary results of the actuarial valuation as at 31 March 2022 in relation to the Employer's individual funding position. A full valuation report will follow by 31 March 2023, which will provide details of the valuation method, assumptions and results of the valuation.

The purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2023 to 31 March 2026 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended. These contributions rates will be based on each employer's own membership/funding unless the employer participates in a pool, in which case the funding position of the pool will be considered.

McCloud judgment

At the time of writing, the amending regulations to address the remedy to LGPS benefits under the McCloud judgment have not been made. However, guidance for the 2022 valuations has been provided by the Department for Levelling Up, Housing & Communities (DLUHC). Using this guidance, the liabilities calculated for each employer include an allowance for the McCloud remedy. Please note that this allowance will change from year to year as the impact on members will change from year to year. For more information, please contact the administering authority.

Compliance statement

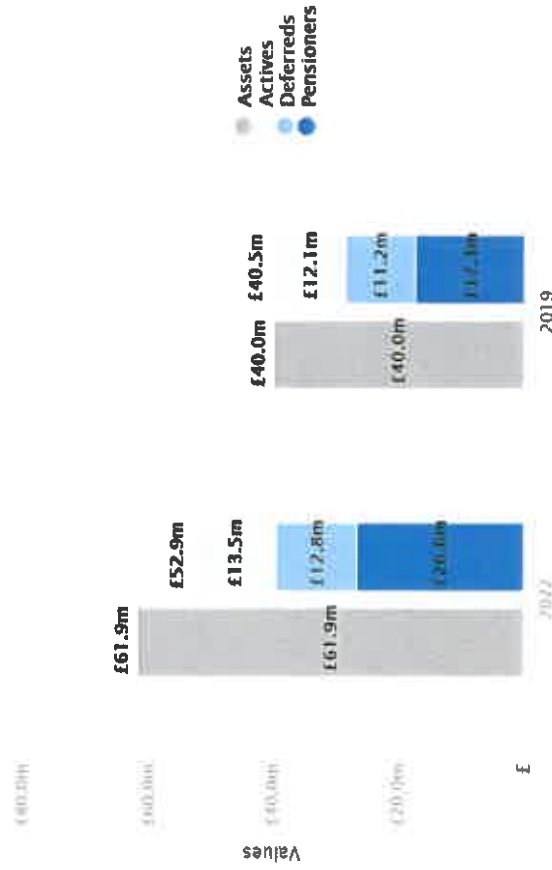
This schedule is subject to and complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) as a component communication of the 2022 valuation. This schedule does not constitute as advice to the Employer.

Employer results

Funding position

Each participating employer, or group of similar employers, will have differing results to the Fund as a whole depending upon their own profile of membership within the Fund, and how this has changed in the inter-valuation period.

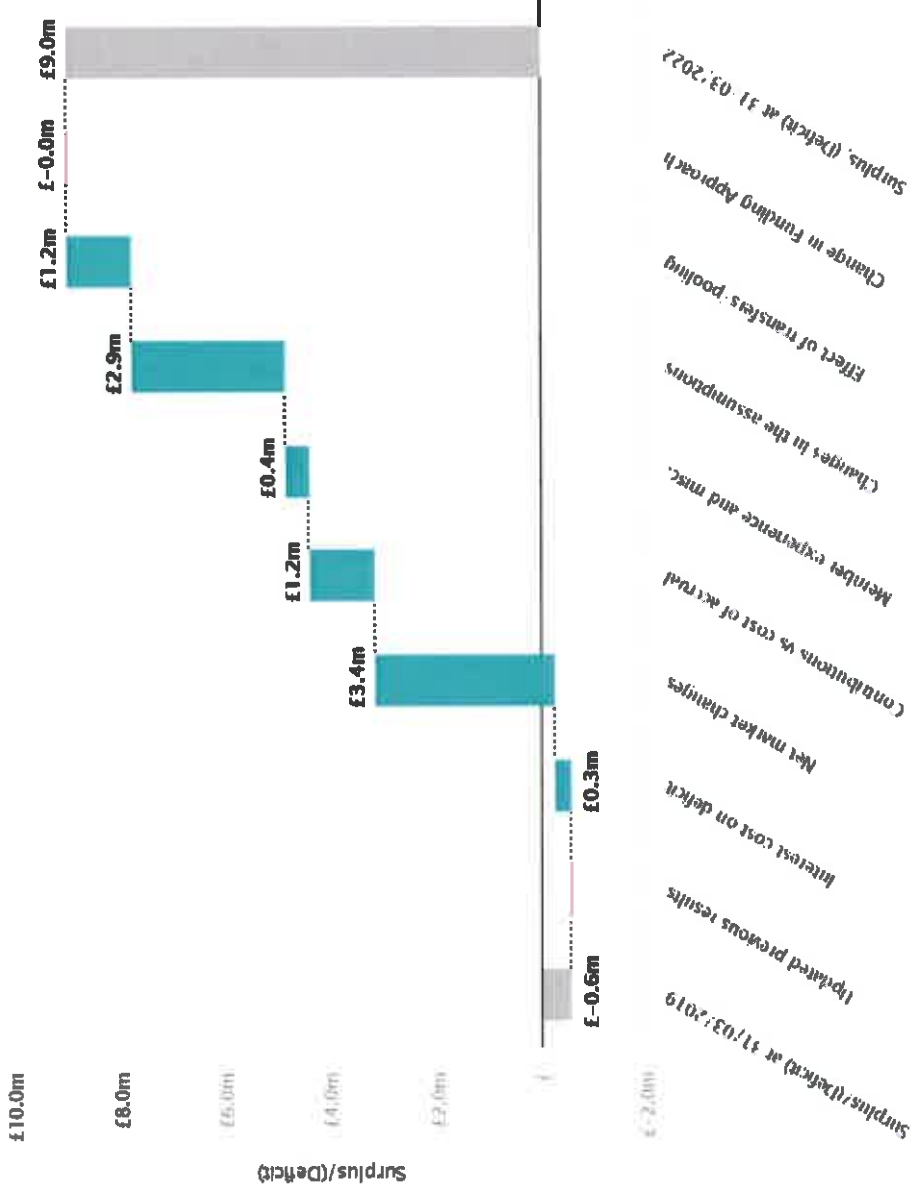
Using the proposed assumptions, the preliminary results as at 31 March 2022 for Lee Valley Regional Park Authority are set out in the chart below. We have included the funding position at 31 March 2019 for comparison.



The Employer has a funding surplus of £9.00m at 31 March 2022, relating to a funding level of 117%, compared to a funding deficit of £0.55m at 31 March 2019, relating to a funding level of 98.6%.

Funding position reconciliation

The table below shows a breakdown of the change in the funding position since the previous valuation (this will be at pool level if the Employer is pooled).



More details of each change are in Appendix 3.

Contribution rates

The total contribution rates payable by employers consists of two elements, the primary rate and the secondary rate. The primary rate covers the cost of benefit accrual and the secondary rate is the adjustment required to reach the total rate payable (for example, to recover a funding deficit identified).

The proposed minimum contribution rates for the three year period from 1 April 2023 to 31 March 2026 are detailed below. These contribution rates have been provided to the administering authority and reviewed via **Illuminate Me**. The Employer may pay further amounts at any time.

	Previously certified		Provisionally certified	
	31 March 2023	31 March 2024	31 March 2025	31 March 2026
Contribution rate results				
Year ending				
Total contributions	15.6%	13.8%	13.8%	13.8%
<i>Consisting of:</i>				
Primary rate (of pay p.a.)	15.6%	13.8%	13.8%	13.8%
Secondary rate (% of pay plus £ p.a.)	-	-	-	-
Contribution rate analysis				
Estimated annual pay	£6.35m	£6.59m	£6.85m	£7.11m
Estimated Total contributions	£990k	£910k	£945k	£982k
Increase (in absolute terms)	-	-8.1%	3.9%	3.9%

Contribution assumptions

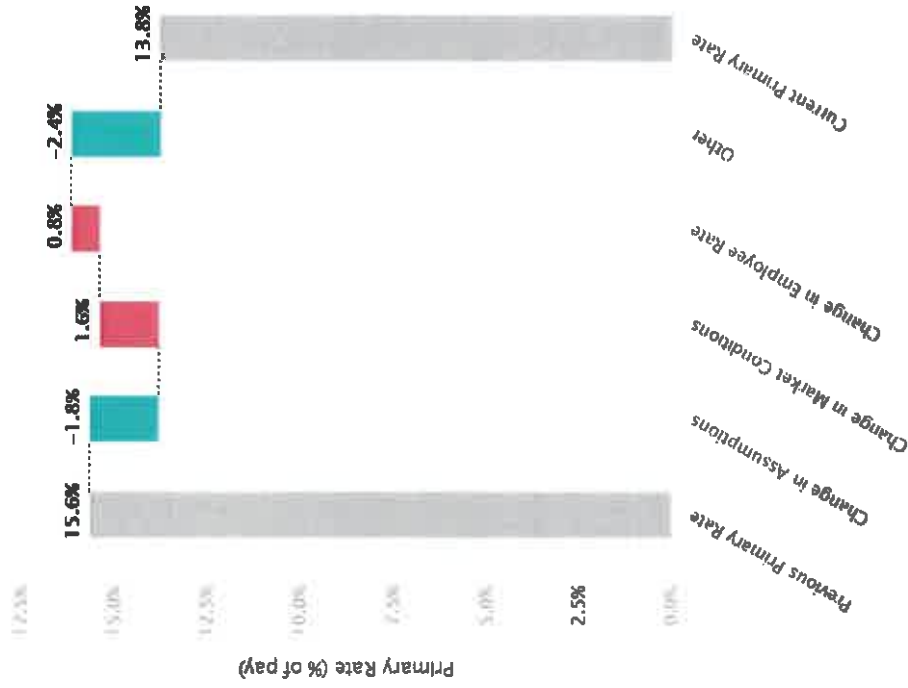
These rates have been calculated using the following assumptions:

- The employer is open to new members.
- The employer is assumed to be Category A for the purpose of funding.
- Monetary contributions are assumed to be paid monthly.
- Secondary contributions are assumed to increase in line with salaries.

The Employer category determines the discount rate assumed for each employer. More details are provided in the Discount rate section below.

Primary rate reconciliation

The table below shows a breakdown of the change in the Employer's primary (i.e. future service) rate from the previous valuation. An explanation of each change are in Appendix 3.



Minimum-risk cessation information

If the Employer was to exit the Fund, with no further support for their remaining Fund liabilities on exit, we would establish the funding position on a "minimum-risk" basis. This is similar to adopting a basis that would be used to secure the liabilities from an insurance company. In practice there is no scope for the liabilities to be bought out via such an arrangement but it represents one measure of the cost of funding the liabilities while minimising the risk of further costs having to be met by other employers in the future. In particular, an appropriate approach to determine the liabilities on a minimum-risk basis would be to use gilt yields as the discount rate. At 31 March 2022, the minimum-risk discount rate is 1.87% p.a. and the CPI inflation assumption is 3.02% p.a.

On this basis, the Employer has a deficit of £39.9m at 31 March 2022. Note if the employer was to exit the Fund, a full cessation valuation at the exit date would be required which would set out any payment to be made on exit.

Please note that the administering authority should have a separate policy on deferred debt agreements and debt spreading agreements for exiting employers. Please get in touch with the administering authority for more information.

Next steps

The administering authority is happy to discuss the proposed rates with the Employer. The agreed contributions payable by the Employer will be set out in the Rates and Adjustments Certificate issued alongside the actuarial valuation report by 31 March 2023.

Appendix 1 Information and methods

Membership data

The membership data provided for the Employer is summarised below and this is what the results are based on. The Employer should let the Fund know if this does not look in line with their expectations of the existing membership profile.

	31 March 2022			31 March 2019		
	Current Number	Salary/Pension	Average Age	Current Number	Salary/Pension	Average Age
Active	245	£6.35m	45.0	194	£5.94m	46.4
Deferred (inc. Undecided)	482	£0.93m	49.3	471	£0.86m	44.1
Pensioner and Dependant	252	£1.88m	71.4	224	£1.38m	73.5

Valuation of liabilities

Using the valuation assumptions shown below, we estimate the future cashflows which will be made to and from the Fund throughout the future lifetime of existing active members, deferred pensioner members, pensioners and their dependants. We use these to calculate the amount of money which if invested now, would be sufficient together with the assumed growth in the assets to make those payments in future. This amount is called the present value of members' benefits and separate calculations are made in respect of service up to the valuation date (past service), and for service after (future service).

We compare the value of existing assets with the value of past service benefits (allowing for future salary and pension increases). If there is an excess of assets over accrued liabilities then there is a surplus, otherwise, there is a deficit.

To calculate contribution rates we first calculate the value of future benefits. If an employer is open to new members, we will usually consider the value of benefits accruing in the first year. If an employer is closed to new members, then we will usually consider a longer term, for example, the value of benefits accruing in the remaining working lifetime of the members. The value of these benefits is then expressed as a percentage of payroll over the same period, having first deducted the projected contributions to be paid by the members.

If there is a deficit, additional contributions are required to be paid by employers over an agreed period, either as a percentage of payroll, or as monetary amounts.

Assets

Assets are calculated as a six-month smoothed market value straddling the valuation date. The purpose of smoothing the asset value is to help stabilise employer contributions and it means that contribution rates are not singularly dependent on the market value of assets and market conditions on one particular day.

Assets are not separately held for each employer. The Fund holds assets in respect of all of the employers in the Fund and each employer has a notional share of these assets. Each employer's own notional share is fully re-apportioned at the actuarial valuation by accumulating the assets from the previous valuation with respect to the Fund's investment return achieved over the period, and with allowance for cashflows paid in respect of the Employer and any other experience.

Appendix 2 Summary of the Fund results

Assumptions

In summary, we have adopted the following key assumptions at 31 March 2022 (with comparison to those adopted at 31 March 2019).

	31 March 2022	31 March 2019
Key assumptions		
Discount rate	5.4% - 1.9% p.a	5.3% - 1.7% p.a
CPI inflation	2.9% p.a	2.6% p.a
Salary increases	3.9% p.a	3.6% p.a
Post-retirement mortality	<p>Male / Female Club Vita 95%-125% CMI 2021 1.25% 7 0.0% 5%</p> <p>Member base table Mortality multiplier Projection model Long-term rate of improvement Smoothing parameter Initial addition to improvements 2020 and 2021 weight parameter</p>	<p>Male / Female Club Vita 100% CMI 2018 1.25% 7 0.5% n/a</p>

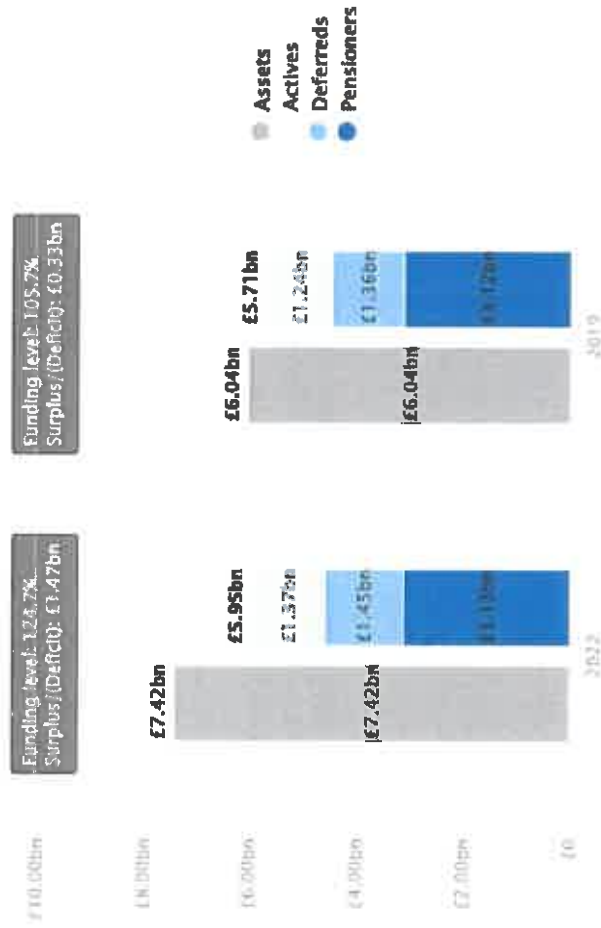
Discount rate

Employers in the Fund fall into six employer categories which determines the assumed discount rate. Employer categories are set by the administering authority based on covenant analysis carried out. The Employer's own Employer category is set out in the Contribution assumptions section above. The discount rate assumed for each employer category is detailed in the table below:

Employer Category	Discount rate
A	5.4% p.a.
B1	5.0% p.a.
B2	4.7% p.a.
C1	4.3% p.a.
C2	4.0% p.a.
D	1.9% p.a.

Past service funding position (whole Fund)

Using these assumptions, the chart below sets out the preliminary valuation results for the Fund as a whole as at 31 March 2022 (with comparison to the whole fund results at 31 March 2019):



Comments on Fund results

We have the following comments on the Fund results:

- These results take into account the individual employer funding strategies which have been updated since 2019
- The change in individual employers' funding categories has led to a decrease in the Fund surplus of approximately £126m
- Investment returns have been strong since 2019 leading to an estimated improvement in the Fund surplus by £956m
- High levels of inflation have resulted in a decrease in the Fund surplus of approximately £240m
- Updating the demographic assumptions following a longevity review of the Fund resulted in an increase to the Fund surplus of £172m

Appendix 3 Explanation of reconciliation items

Funding level changes

Net market changes

This item affects both assets and liabilities. The contribution from the assets is the performance of the Fund compared to the assumption made at the previous valuation. The liabilities are valued based on market indicators and the assumptions automatically change over time (e.g. future expected inflation).

Contributions vs cost of accrual

This estimates the difference between contributions actually paid by the employer and the cost of benefits built up by members over the last three years.

Member experience

This covers all member experience, including salary increases, members who have died compared to assumed etc. This item could be positive or negative for employers depending on experience.

Changes in assumptions

While the market-related part of the change in assumptions was covered in the Net market changes item, a number of other assumptions have updated. This includes changes to the financial assumptions, where we may have assumed different levels of asset returns in future compared to the previous valuation, and the mortality assumptions, where the tables and models used have been updated to reflect recent mortality experience.

Effect of transfers/pooling

This item reflects the impact of member transfers into or out of the employer's section of the Fund or if an employer's assets have been reallocated through a funding pooling process.

Change in funding approach

This item reflects any other changes in the employer's funding position (for example, if the employer's funding category has changed). More details for any particular employer are available on request.

Primary rate changes

Change in assumptions

As described in the Funding level changes section.

Change in market conditions

As described in the Funding level changes section.

Change in Employee rate

As the LGPS is a balance of cost scheme, members contribute at a certain rate of pensionable salary (depending on the salary band they fall within) and the employers pay the remainder of the calculated cost of benefits. This item measures the effect of the change in average member contribution rates on the employer's contribution rate (e.g. if the employer's employees average contribution rate reduced (as a percentage of pensionable salary), then all things equal, the employer would have to contribute at a higher rate).

10

Other

This item reflects any other changes in the employer's primary rate. These could be in relation to changes in the membership structure, changes in funding policy, or pooling of future service costs. This will also include the impact of any change in employer category since the previous valuation. More details are available on request.

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London Pensions Fund Authority Funding Strategy Statement

October 2022



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This Funding Strategy Statement ("FSS") is a summary of London Pensions Fund Authority's approach to funding liabilities in respect of the Fund. It is not an exhaustive statement of policy on all issues.

For more information please contact corporate@lpfa.org.uk

London Pensions Fund Authority

Funding Strategy Statement

Introduction

This is the Funding Strategy Statement (FSS) of the London Pensions Fund Authority Pension Fund (the Fund), for which the London Pensions Fund Authority (LPFA) is the Administering Authority. It was prepared in collaboration with the Fund's actuary, Barnett Waddingham (the Fund Actuary), and after consultation with the employers participating in the Fund.

This FSS, together with LPFA's Admission and Cessation Policy and Contribution Review Policy, facilitates use of flexibilities under Regulations 64A and 64B of the LGPS Regulations 2013. The FSS has been prepared with regards to the 2016 CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement. The Fund Actuary has had regard to this statement in carrying out the 2022 valuation of the Fund.

Regulatory framework

Members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers fund the liabilities in respect of their own employees.

This FSS forms part of a regulatory framework which includes:

- the Local Government Pension Scheme Regulations 2013,
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014;
- the Public Service Pensions Act 2013;
- the Rates and Adjustments Certificate, which is issued in addition to the Fund's actuarial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service or pension;
- the Investment Strategy Statement (ISS); and
- Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

This is the framework within which the Fund Actuary carries out actuarial valuations to set employers' contributions and provides recommendations to LPFA when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers that are required to make payments to the Fund either under the LGPS Regulations or under any other legal agreement between the employer and LPFA.

Purpose of the Funding Strategy Statement in policy terms

The purpose of the FSS is as set out by the Department for Communities and Local Government and the 2016 CIPFA Pensions Panel Guidance on preparing and maintaining a Funding Strategy Statement:

- "to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework taking into account the requirement to set contributions so as to ensure solvency and long-term cost efficiency under relevant legislation and the desirability of maintaining as nearly constant a primary employer contribution rate as possible*"; and
- to take a prudent longer-term view of funding those liabilities."

These objectives are desirable individually but may be mutually conflicting. This statement, therefore, sets out how LPFA has balanced the conflicting aims of ensuring solvency, affordability of contributions, transparency of processes, desirability of stability of employers' contributions and prudence in the funding basis.

Aims and purpose of the Fund

The aims of the Fund are to:

- manage employers' liabilities effectively;
- ensure that sufficient resources are available to meet all liabilities as they fall due;
- safeguard the Fund against the consequences of employer default;
- set contributions to ensure Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile to the Fund and LPFA and employers' risk profiles (Public Service Pensions Act);
- enable employer contribution rates to be kept as stable as possible and at reasonable cost to the taxpayers, scheduled, designated, resolution and admitted bodies (LGPS Regulations);
- seek returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income; and
- pay out monies in respect of scheme benefits, transfer values, costs, charges, and expenses.**

* As set out in 2016 CIPFA Pensions Panel Guidance and defined in regulation 62 of the Local Government Pension Scheme Regulations 2013.

** As set out in the 2016 CIPFA Pensions Panel Guidance and defined in the Local Government Pension Scheme Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Responsibilities of the key parties

The sound management of the Fund can only be achieved if all interested parties exercise their statutory duties and responsibilities conscientiously and diligently. Although a number of these parties, including investment fund managers and external auditors, have responsibilities to the Fund, the following are of particular relevance for the FSS.

The Administering Authority (LPFA) should:

- collect employer and employee contributions, investment income and other amounts due to the Fund;
- operate a pension fund paying benefits as they become due;
- invest monies in accordance with the Regulations and agreed strategy;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the Fund Actuary;
- notify employers of the expected timing of key events and actions related to completion of the valuation process;
- prepare and maintain an FSS and an ISS, both after proper consultation with interested parties, including participating employers;
- monitor the Fund's performance and funding and amend the FSS and ISS accordingly;
- take measures to safeguard the Fund against the consequences of employer default;
- manage potential conflicts of interest arising from its dual role as fund administrator and a scheme employer;
- enable the Local Pension Board to review the valuation process as set out in their terms of reference.

Each employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate in accordance with LGPS Regulations;
- pay all ongoing contributions, including employer contributions determined by the Fund Actuary and set out in the Rates and Adjustments Certificate, promptly by the due date;
- develop policies on discretions and exercise discretions as permitted within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain including payment of penalties for late payment;
- notify LPFA promptly of all changes to membership or other changes that might affect future funding;
- comply with the valuation timetable where required and respond to communications as necessary to complete the process;
- follow all requirements laid down in the Pensions Administration Strategy;
- send timely and accurate data to LPFA, as required;
- discharge their responsibility for compensatory added years which LPFA pays on their behalf and is subsequently recharged to the employer;

- comply with The Pensions Regulator requirements outlined within any relevant codes of practice;
- pay any exit payments required under the LGPS Regulations on ceasing participation in the Fund;

The Fund Actuary should:

- prepare valuations including the setting of employers' contribution rates having regard to the FSS and LGPS Regulations;
- set contribution rates in order to secure the Fund's solvency and long-term cost efficiency having regard to the desirability of maintaining as nearly constant a contribution rate as possible;
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- provide advice and valuations on the exiting of employers from the Fund;
- assist LPFA in assessing whether any increase is required in an individual employer's contributions under Regulation 64(4) of the LGPS Regulations 2013;
- agree a timetable for the valuation process with LPFA and provide timely advice and results.

Solvency and long-term cost efficiency

The principal issues facing the solvency of the Fund include the ability to finance liabilities as and when they arise, the volatility of employer contribution rates, the pace at which deficits are recovered (or surpluses used up), and the returns on the Fund's investments within reasonable risk parameters.

Securing solvency and long-term cost efficiency are regulatory requirements; maintaining as constant as possible employer contribution rates is a desirable outcome. LPFA will prudentially seek to ensure the income stream from contributions and investments are sufficient to achieve the aim of paying benefits as and when they fall due.

All Fund employers are expected to fully meet their pension obligations outlined within the LGPS Regulations using the methodology applied by the Fund Actuary.

Actuarial valuation as at 31 March 2022

The assumptions, methodology, and policy for setting contributions for the actuarial valuation as at 31 March 2022 are set out in Annex 1.

LPFA may, at its discretion, deviate from the policy set out in Annex 1 where doing so would be in the best interest of the Fund and/or employers collectively.

Amending contributions between actuarial valuations

Where appropriate, LPFA may exercise its power to amend contributions under Regulation 64A of the LGPS Regulations 2013. LPFA's policy on amending contributions between valuations is set out in its Contribution Review Policy.

Ceasing participation in the Fund

LPFA's policy in relation to employers ceasing participation in the Fund is set out in its Admission and Cessation policy.

On the cessation of an employer's participation in the Fund, the Fund Actuary will carry out an actuarial valuation to determine the assets and liabilities in respect of the benefits held in respect of the exiting employer's current and former employees, as required by the LGPS Regulations.

The assumptions used for the cessation valuation will not necessarily be the same as the long-term funding assumptions used for ongoing actuarial valuations. In particular, cessation valuations will reflect the amount of funding support available after the employer ceases participation. The value of the liabilities on a minimum risk basis will be a relevant consideration in some circumstances. Details of the methodology used to value liabilities on a minimum risk basis and the relevant assumptions as at 31 March 2022 are set out in Annex 1.

Following the cessation of an employer in the Fund, LPFA may consider entering into a Deferred Debt Agreement under Regulation 64(7B) of the LGPS Regulations 2013. LPFA may also consider spreading any exit payment under Regulation 64B of the LGPS Regulations 2013. LPFA's policy on Deferred Debt Agreements and its policy on spreading exit payments are set out in its Admission and Cessation Policy.

Links to Investment policy

Funding and investment strategy are inextricably linked. LPFA's investment strategy is set after taking investment advice and is set out in its Investment Strategy Statement.

LPFA does not account for each employer's assets separately. Instead, the Fund Actuary is required to notionally apportion the assets between the employers at each actuarial valuation using the income and expenditure figures in relation to each employer. In addition, any bulk transfers between employers or individual transfers of which the Fund Actuary is aware are allowed for through notional transfers between the employers. This approach aims to broadly replicate the assets that would have resulted had each employer participated in their own ring-fenced section but some approximations are required with regard to internal transfers and the timing of cashflows.

The limitations in the process of notionally apportioning assets are recognised but, having regard to the extra administration cost of formally segregating assets, LPFA considers that the Fund Actuary's approach addresses the risks of employer cross-subsidies to an acceptable degree.

Key risks and controls

LPFA has an active risk management programme in place to identify, measure and control key financial, demographic, regulatory, climate change, and governance risks as well as employer and liquidity risk. The key risks are summarised in Annex 2 and are reviewed regularly.

Consultation and publication

LPFA has prepared and updated the FSS in collaboration with the Fund Actuary and consulted the employers in the Fund through written correspondence. The FSS has been published on the LPFA website and printed copies are available on request.

An electronic copy of the FSS has been sent to each employer, the Fund Actuary, the Department for Levelling Up, Housing and Communities, and the Local Pension Board.

Scheme members will be informed of the publication and the key elements of the strategy.

A summary of the funding principles which underpin the strategy will also be published in the LPFA Annual Report and Accounts.

Monitoring and review

The key funding principles will be monitored on an annual basis and a statement of significant variance will be incorporated into the actuarial report as part of the LPFA Annual Report and Accounts.

As a policy statement, the FSS is reviewed in detail at least every three years ahead of completion of the triennial valuation, with the next full review due to be completed by 31 March 2026 in order to inform the 31 March 2025 actuarial valuation.

The FSS will be reviewed in the event of any significant or material change arising prior to the next valuation and a revised statement issued accordingly.

Annex 1

Assumptions, methodology, and contribution policy for the actuarial valuation as at 31 March 2022

Financial assumptions

The financial assumptions used to calculate liabilities are derived to some extent from observable investment market statistics. These statistics are smoothed by using the average of the daily observations over the period 1 January 2022 to 30 June 2022. Asset values are also smoothed in a consistent way.

The smoothed financial assumptions adopted for the valuation as at 31 March 2022 are set out below.

Discount rate

The discount rate reflects an assumed best-estimate rate of future investment returns based on LPFA's long-term investment strategy, with a margin for prudence deducted from this best-estimate view. For the 2022 valuation, the best-estimate of future investment returns is assessed by the Fund Actuary as 6.3% pa.

The margin for prudence, and therefore the discount rate, depends on the covenant grade applied to the employer in accordance with LPFA's Employer Risk Management Framework. A higher margin for prudence is applied where the employer is assessed as posing a higher risk to the Fund.

The margin for prudence is considered in the context of the best-estimate return (which would represent no margin for prudence) and the yield available on UK government bonds (which would represent the maximum margin for prudence). For the 2022 valuation, the smoothed UK government bond yield is assessed as 1.9% pa.

The discount rate assumptions as at 31 March 2022 are set out below.

Covenant grade	Discount rate (% pa)	Relative to best-estimate (% pa)	Relative to government bond yields (% pa)
A	5.4%	(0.9%)	3.5%
B1	5.0%	(1.3%)	3.1%
B2	4.7%	(1.6%)	2.8%
C1	4.3%	(2.0%)	2.4%
C2	4.0%	(2.3%)	2.1%
D	1.9%	(4.4%)	0.0%

Employers that provide security to LPFA (or any other form of covenant support such as a bond or guarantee) can improve their covenant grade and benefit from a higher discount rate. Further details of this are provided in LPFA's Employer Risk Management Framework.

For the purpose of the assessing funding levels and setting contribution rates at the 2022 valuation, covenant support will be reflected in the discount rate where it is fully in place by 28 February 2023. Covenant support put in place after this date will be addressed in line with LPFA's Contribution Review policy

Consumer Prices Index (CPI) inflation

CPI inflation is assumed to be 2.9% pa

Future CPI inflation is assumed to be a flat rate that is the same in each future year. The assumption is set by considering the level of inflation implied by the prices of 20-year government bonds. A deduction is made to reflect an expectation that future CPI inflation will be lower than implied by government bond yields.

Increases in pensionable pay

Pensionable pay increases are assumed to be 3.9% pa

This assumption reflects an expectation that over the long term pensionable pay will increase in line with CPI plus 1% pa. It affects the value of past service liabilities for active members with pre-2014 service but does not affect the primary contribution rate.

This assumption includes an allowance for promotional salary increases.

Demographic assumptions

The demographic assumptions used to calculate the liabilities are based on statistical analysis of recent membership patterns, and judgement about how these patterns might develop in future. Demographic assumptions are set for the Fund as a whole and do not depend on the employer's individual circumstances.

The main demographic assumptions as at 31 March 2022 are set out below.

Current and future longevity

The valuation liabilities have been calculated using Club Vita 2021 mortality tables, which assign a mortality assumption to each individual member based on characteristics that can affect how long the member might live. These tables are then adjusted by a suitable multiplier to reflect the Fund's unique mortality experience.

Allowance is made for members' mortality to improve in the future, using the 2021 version of the CMI model with a 5% loading to the 2020 and 2021 weight parameters, 0% initial addition to improvement parameter, a smoothing parameter of 7.0 and a long-term rate of improvement of 1.25% pa.

Members leaving active service

The assumed rates of leaving employment and death before retirement are in line with the most recent study of national LGPS experience, as assessed by the Government Actuary's Department.

No allowance has been made for individual member transfers out based on member experience up to the 2022 valuation date.

Retirement patterns

The assumed rates of ill-health retirements reflect the Fund's specific recent experience. The assumption is set at 50% of the most recent study of national LGPS experience, as assessed by the Government Actuary's Department.

75% of ill-health retirements assumed to be at Tier 1, 15% at Tier 2 and 10% at Tier 3.

For each tranche of benefit, members have an age at which they are able to take their benefits unreduced. This is:

- their "Rule of 85" age for service prior to 1st April 2008,
- their "Rule of 85" age (for older members) or 65 (for younger members) for service between 1st April 2008 and 31st March 2014, and
- their State Pension Age (but with some transitional protection for members in service at 31 March 2012) for service after 1st April 2014.

It is assumed that each member will retire at the average of these ages (weighted by accrued pension).

Annex 1

Assumptions, methodology, and contribution policy for the actuarial valuation as at 31 March 2022

The capitalised cost of early retirements, other than on ill-health terms up to the levels of experience assumed by the Fund Actuary, and augmentation of service or pension will be funded by the employer by lump sum payment at the time of retirement.

At retirement members are assumed to commute 50% of the maximum pension allowed by HMRC at a rate of 12:1. This assumption is based on an analysis of recent commutation rates for LPFA members at retirement.

Dependants

75% of males and 70% of females are assumed to have an eligible dependant at retirement or earlier death. For members that have already retired, allowance is made for their dependant to have died since retirement.

Allowance for the McCloud/Sargeant Judgement

On 20th December 2018 a judgement was made by the Court of Appeal in relation to two employment tribunal cases (McCloud and Sargeant), which were brought against the Government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015.

The Court of Appeal ruled that the transitional protection offered to some members as part of the scheme reforms amounted to unlawful discrimination.

For the 2022 valuation, it is assumed that legislation will be brought forward to implement the proposals outlined in the written ministerial statement made on 13 May 2021. The liabilities in respect of each member will be valued in line with these proposals. This will involve projecting each active member's benefits to retirement and comparing it with the equivalent final salary benefit. Where the data required for accurate calculations is not available, estimates will be made by the Fund Actuary.

Minimum risk basis

In addition to the ongoing valuation, which is based on the assumptions set out above, the liabilities of each employer are also assessed on an alternative "minimum risk" basis. The purpose of this minimum risk valuation is to assess the level of assets that would be required in the event that the employer ceases participation in the Fund and responsibility for the liabilities is not passed to another employer.

The assumptions adopted for the minimum risk valuation are the same as for the ongoing valuation, except that:

- the employer is assumed to cease participation in the Fund on the valuation date and all active members are assumed to become deferred pensioners;
- the assets and CPI inflation assumption are based on investment market conditions on the valuation date rather than being smoothed (this results in a CPI inflation assumption of 3.0% pa as at 31 March 2022); and
- the discount rate is set in line with the 20-year spot yield on conventional gilts as at the valuation date, less a deduction for expenses (this results in a discount rate of 1.8% pa as at 31 March 2022).

Reflecting employer circumstances

The circumstances of each employer's participation in the Fund are taken into account in the areas outlined below.

New entrant status

For many employers in the Fund, all eligible employees can build up benefits in the LPFA Fund. However, in some cases restrictions are placed on employees becoming members of the Fund. For valuation purposes, each employer is assessed by LPFA as being either open or closed to new entrants. This assessment is based on the provisions included in any admission agreement and recent experience of the number of new members joining the Fund.

The open or closed status of the employer affects other elements of the assumptions and methodology as described elsewhere in this document.

Projected cessation basis

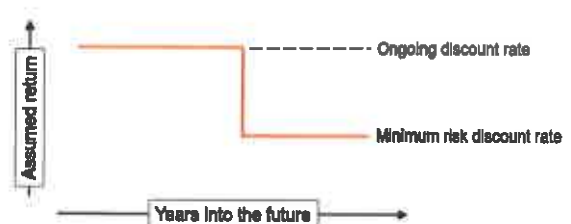
Where an employer is assessed as being closed to new entrants, it is likely that the number of active members will reduce over time until none remain. When the last active member leaves pensionable service, the employer ceases participation in the Fund and LPFA will follow the process set out in its Admission and Cessation policy.

In some cases, the Admission and Cessation policy may require employers to make an exit payment to the Fund sufficient to result in full funding on a minimum risk basis. The amount of the payment is dependent on the specific circumstances of the employer, but it can be large relative to ongoing contributions.

In order to avoid a large and potentially unexpected exit payment, a "projected cessation" approach can be adopted for the valuation. Under this approach the discount rate is set as follows:

Future year	Investment returns assumed to be received during the year
Years between the valuation date and when the last active member is expected to leave service	The ongoing discount rate applicable for the employer's covenant grade
Years in which no active members are expected to remain in service	The minimum risk discount rate

This is illustrated graphically below.



The period of time until the last active member is expected to leave service is determined by the Fund Actuary, based on professional judgement, the membership profile of the employer's remaining active members, and the demographic assumptions adopted for the valuation.

This approach is likely to result in higher employer liabilities and contributions during the period until the last active member leaves service but can reduce the amount of the exit payment required when the employer ceases participation in the Fund significantly.

Annex 1

Assumptions, methodology, and contribution policy for the actuarial valuation as at 31 March 2022

For the 2022 valuation, LPFA will engage with employers that are both closed to new entrants and assessed as being required to make an exit payment under LPFA's Admission and Cessation policy when the employer ceases participation in the Fund. In these cases, LPFA will adopt a projected cessation approach unless the employer's circumstances justify an alternative approach.

Treatment of related employers

Some employers within the Fund are closely related to one another. For example they may be part of the same group structure or have a commercial relationship such as an outsourcing contract. In these situations, it is possible to reflect the relationship between employers in the valuation. For example:

- The overall funding position of the employers can be combined (so that they both receive the same funding level and contribution rate)
- The future service rate can be combined (so that they pay the same primary rate but different secondary rates depending on their separate funding levels)
- The required contributions can be apportioned between the employers (for example a service provider may pay a specified rate, with the outsourcing employer paying the balance)

Where employers are related, combining or apportioning funding arrangements is permitted, subject to consent from all affected employers and LPFA.

Setting the primary contribution rate

The primary contribution rate is the value of the liabilities being accrued each year by active members, net of member contributions, expressed as a percentage of pensionable payroll.

The primary rate is calculated by the Fund Actuary based on the profile of each employer's active members and the employer's new entrant status.

- For employers that are open to new entrants the primary rate will be based on the projected unit method of calculation.
- For employers that are closed to new entrants the primary rate will be based on the projected unit method of calculation with an appropriate control period, where the control period is the period over which the membership is assumed to age. The control period may reflect the length of a contract, the time to the next valuation, or the expected time to cessation as determined by the Fund Actuary.

The primary rate payable by each employer will be subject to a minimum of 12% of pensionable pay.

Neither primary rate contributions nor member contributions are permitted to be paid in advance.

Setting the secondary contribution rate

The secondary contribution rate is an adjustment to the primary rate intended to affect the employer's funding position. For the 2022 valuation, LPFA's approach to setting the secondary rate in respect of each employer depends on the funding position of its liabilities in the Fund. The secondary rate will be:

- positive (i.e. deficit contributions) where the employer's funding level is less than 100%,
- negative (i.e. a reduction to contributions) where the employer's funding level is greater than 120%,
- nil where the employer's funding level is between 100% and 120%.

These three possible outcomes are described further below.

Where the employer funding level is less than 100%

In this situation there is a valuation deficit that must be addressed. A positive secondary rate will be calculated in order to address the deficit over time. These contributions are expressed as cash sums, increasing each year in line with the assumed rate of pensionable pay increases. LPFA will consider requests to express the contributions as a percentage of pensionable pay where the employer is open to new entrants and can demonstrate a stable or increasing active membership and pensionable payroll.

Secondary rate contributions will be set using the following process in order:

1. Where the valuation is carried out using a projected cessation basis, contributions will be spread over the remaining period until the last active member is expected to leave service.
2. Where a Deferred Debt Agreement or other funding agreement is in place, contributions are set in line with that agreement.
3. Secondary rate contributions will be set such that the employer's total contributions are maintained at the existing level (increasing in line with the assumed rate of pensionable pay increases) where this is expected to address the deficit over a period of less than 10 years from the valuation date.
4. Where an employer's admission agreement has a remaining term of less than 10 years (for example where the admission agreement is linked to an outsourcing contract), the secondary rate contributions will be spread over the remaining term of the admission agreement.
5. In all other cases, secondary rate contributions will be spread over a period of 10 years from the valuation date.

This approach is intended to:

- Address ongoing funding deficits within a period of 10 years, or sooner where this can be achieved without increasing existing contribution levels or where the employer's admission agreement is due to come to an end.
- Recognise that employers that are subject to a projected cessation approach, Deferred Debt Agreement, or other funding agreement are typically seeking to achieve a higher funding target than ongoing employers, and it can therefore be appropriate to spread contributions over a longer period than 10 years.

Annex 1**Assumptions, methodology, and contribution policy for the actuarial valuation as at 31 March 2022**

LPFA will consider requests to pay secondary contributions in advance where this is requested by the employer. Where contributions are paid in advance, the Fund Actuary will determine the appropriate amount to result in equivalent present value.

Where the employer funding level is greater than 120%

In this situation LPFA considers that the liabilities are sufficiently well funded that employer contributions can be reduced by setting a negative secondary contribution rate. Negative secondary contribution rates are expressed as a percentage of pensionable pay. There is no option to express the negative secondary rate as a cash sum.

The secondary rate contributions will be set by identifying the amount of assets in excess of 120% of the liabilities. This amount is then spread over a 10-year period (such that the funding level is expected to be 120% in 10 years' time). The maximum negative secondary rate is -10% of pensionable payroll.

Where the employer has an admission agreement that is guaranteed by another entity, that entity's consent to the secondary rate will be required.

LPFA may, at its discretion, set the secondary rate to fully offset the primary rate where the employer is fully funded on a minimum risk basis.

Where the employer funding level is greater than 100% and less than 120%

In this situation the secondary rate will be nil. There is no deficit to address, and the surplus is not sufficiently large for LPFA to consider it appropriate to reduce employer contributions. In taking this stance, LPFA is seeking to strike a balance between the desire for contribution stability and the need to take a prudent long-term view of funding liabilities

Annex 2

Summary of key risks & controls

The Fund's primary objective is to ensure that over the long term the Fund will meet all liabilities as they fall due. The Fund is exposed to a large number of risks, the three most significant of which are outlined below.

Funding risk

This is the risk that the value of assets and/or the value of liabilities change in such a way that contributions are required from employers at an unaffordable level. This risk is managed in several ways, including:

- Selecting an appropriate investment strategy after taking appropriate advice. Further details of how the investment strategy is intended to manage funding risk is set out in LPFA's Investment Strategy Statement.
- The use of a funding risk management framework to set metrics intended to identify and manage emerging funding risks at an early stage.
- Regular funding valuations to assess the Fund's financial position.
- The cost control mechanism included within the benefit structure of the LGPS provides a limit on the potential increase in contributions.

Operational risk

This is the risk of failing to have adequate structures in place to ensure LPFA meets its obligations to members and employers. The operational delivery of the Fund is carried out by the Local Pensions Partnership Administration (LPPA) on LPFA's behalf. Much of the ongoing management of operational risk therefore lies with LPPA. LPFA carries out oversight of LPP's risk management by:

- Putting in place service level agreements to ensure delivery in line with required standards.
- Reviewing regular reporting from LPP identifying issues and potential risks.
- Monthly meetings between LPFA Officers and the head of LPPA's risk management team.

Controls to manage operational risk within LPFA include:

- Business Continuity Plans in place in respect of LPFA's internal functions.
- Cyber risk controls in place via LPFA's outsourced IT service.

External influence risk

This is the risk that issues outside LPFA's control affect the ability to deliver obligations. For example, this would include the risk of additional liabilities (such as created by the McCloud judgement) or issues that affect the ability of employers to make contributions to the Fund (such as climate change, the COVID-19 pandemic or challenges relating to the UK's exit from the EU). This risk is addressed by:

- Adopting an employer risk management framework setting out how LPFA measures and manages employer-related risks.
- Regular contact with external stakeholders and industry bodies to identify upcoming issues and influence them to the extent possible.



Employer Name: Lee Valley Regional Park Authority
Employer Number: LP00403

26th July 2022 (By email)

Dear Keith,

LPFA Valuation March 2022 – Your organisation's covenant grade

We are writing to inform you of the covenant grade that we intend to use for the valuation of your organisation's obligations to the LPFA Pension Fund (the Fund).

The covenant grade affects how much your organisation will pay in contributions to the LPFA Fund over the period 1 April 2023 to 31 March 2026. The stronger your grading, the lower your contributions.

In line with our Employer Risk Management Framework, we have awarded a Covenant Grade of:

Grade A

This is the strongest grade that we award. We have awarded this grade based on our understanding that your organisation is one of the following:

- a government body,
- an academy trust,
- a school operated by a local education authority, or
- guaranteed by one of the organisations above.

Please contact us if this is not the case.

If you have any questions, please do not hesitate to get in touch with the team using the following details.

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Iryna.Kunitska@lpfa.org.uk

Lesley Robinson
Employer Covenant Manager
+44 20 8078 3059
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London Pensions Fund Authority | 169 Union Street | London | SE1 0LL

www.lpfa.org.uk

Kind regards,

A handwritten signature in black ink that reads "Robert Branagh". The signature is written in a cursive, slightly slanted style.

Robert Branagh
Chief Executive Officer
London Pensions Fund Authority

London Pensions Fund Authority | 169 Union Street | London | SE1 0LL

www.lpfa.org.uk