MEETING
PENSION FUND COMMITTEE
DATE AND TIME
MONDAY 11TH JULY, 2022
AT 7.00 PM
VENUE
HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4AX

TO: MEMBERS OF PENSION FUND COMMITTEE (Quorum 3)

Chair: Councillor Anne Hutton
Vice Chair: Councillor Andreas Ioannidis

Zahra Beg	Danny Rich	Michael Mire
Linda Lusingu	Mark Shooter	
Simon Radford	Elliot Simberg	

Substitute Members

Edith David	Richard Barnes	Alison Moore
Melvin Cohen	Richard Cornelius	Dean Cohen

In line with the Constitution's Public Participation and Engagement Rules, requests to submit public questions or comments must be submitted on Wednesday 6 July by 10AM. Requests must be submitted to Paul Frost

You are requested to attend the above meeting for which an agenda is attached.

Andrew Charlwood – Head of Governance

Governance Service contact: Paul Frost

Media Relations Contact: Tristan Garrick 020 8359 2454 Tristan.Garrick@Barnet.gov.uk

ASSURANCE GROUP

ORDER OF BUSINESS

19.	Item 13 - Appendix D exempt	159 - 174
20.	Item 14 - Appendix A & B - exempt	175 - 184
21.	Item 15 - Appendix 1 & 2 - Exempt	185 - 190
22.	Review of Performance of Advisors - exempt	191 - 198
23.	Any item(s) that the Chairman decides is urgent	

FACILITIES FOR PEOPLE WITH DISABILITIES
Hendon Town Hall has access for wheelchair users including lifts and toilets. If you wish to let us know in advance that you will be attending the meeting, please telephone Paul Frost. People with hearing difficulties who have a text phone, may telephone our minicom number on 020 8203 8942. All of our Committee Rooms also have induction loops.

FIRE/EMERGENCY EVACUATION PROCEDURE
If the fire alarm sounds continuously, or if you are instructed to do so, you must leave the building by the nearest available exit. You will be directed to the nearest exit by uniformed custodians. It is vital you follow their instructions. You should proceed calmly; do not run and do not use the lifts. Do not stop to collect personal belongings Once you are outside, please do not wait immediately next to the building, but move some distance away and await further instructions. Do not re-enter the building until told to do so.

This page is intentionally left blank

Decisions of the Pension Fund Committee

23 February 2022

Mark Shooter (Chairman)
Elliot Simberg (Vice-Chairman)

AGENDA ITEM 1

Peter Zinkin Anne Hutton Arjun Mittra

Also in attendnace
James Kennedy – Middlesex University

1. MINUTES (Agenda Item 1):

RESOLVED that the minutes of the meeting held on 06 December 2021 be agreed as a correct record.

2. ABSENCE OF MEMBERS (Agenda Item 2):

The Chairman noted with great sadness the passing of Councillor Anthony Finn. He noted that he was a valued member of the Council and the Pension Fund Committee and he therefore paid tribute to him and noted his 33 year service as a Councillor. Councillor Anne Hutton gave condolences on behalf of the Labour Group.

The Chairman noted the apologies of Councillor Kathy Levine.

An apology of lateness was received from Councillor Arjun Mittra.

3. DISCLOSABLE PECUNIARY INTERESTS AND NON PECUNIARY INTERESTS (Agenda Item 3):

Councillor Mark Shooter declared a non-pecuniary interest by virtue being a member of the Barnet Pension Fund. Councillor Shooter took part in the consideration and voting process in all listed agenda items.

Councillor Shooter noted that he was a Member of the Shareholders Committee of the London CIV and made a non-pecuniary declaration. Councillor Shooter took part in the consideration and voting process in all listed agenda items. All Councillors declared a non-pecuniary interest by virtue that they may have shareholdings in companies that the Pension Fund invested in.

4. PUBLIC QUESTION AND COMMENTS (IF ANY) (Agenda Item 4):

None.

5. REPORT OF THE MONITORING OFFICER (IF ANY) (Agenda Item 5):

None.

6. MEMBERS' ITEMS (IF ANY) (Agenda Item 6):

None.

7. PENSION FUND ANNUAL REPORT AND ACCOUNTS AND EXTERNAL AUDITOR'S REPORT UNDER INTERNATIONAL STANDARD ON AUDITING (Agenda Item 7):

The Head of Pensions reported that as the audit of the Pension Fund accounts was not complete that the recommendation to approve the accounts was being deferred. The Committee further noted that appendix B (the external auditors report) was not available to the committee.

The Chairman invited BDO representative, Mr Michael Bediako to make a presentation, he then provided an update to the Committee on the progress of the audit, issues identified and work remaining to be completed. He noted that the statement of accounts and the pension fund account would soon be available. The Chairman thanked Mr Michael Bediako for his presentation.

Having considered the report the Pension Fund Committee:

Resolved:

1) That subject to no significant changed the Committee approved to delegate the signing of the 2020/21 Annual Report and Pension Fund Accounts to the Chairman of the Pension Fund Committee and the Director of Resources and S151 officer.

2) Noted the matters raised by the external auditor in respect of the audit of the Accounts and Annual Report

3) Considered and noted the matters arising from the Annual Report & Accounts or Auditor's Report on which they require additional information or action

8. ADMINISTRATION REPORT (Agenda Item 8):

The Pensions Manager introduced this report. He provided an update on the current performance in relation to the administration of the Barnet Pension Fund by West Yorkshire Pension Fund, along with other issues affecting the administration.

Having considered the report, the Committee:

Resolved

The Pension Fund Committee noted the current performance levels and updates on Annual Benefit Statements and GMP reconciliation project.

9. DATA IMPROVEMENT PLAN AND HISTORICAL LEAVERS REPORT (Agenda Item 9):

The Pensions Manager introduced this report. He outlined that the paper and provided the Pension Fund Committee with an update on the data improvement plan and historical

leaver exercise, together with details of the data preparation for the 2022 triennial valuation.

Having considered the report, the Committee:

Resolved
The Pension Fund Committee noted the progress on the correcting of the member data and the historical leaver exercise

10. LOCAL INVESTING (Agenda Item 10):

The Head of Pensions Introduced the report. He outlined that the report noted the intention by Government to require Local Government Pension Schemes to publish plans to invest up to 5% of assets in projects which support local areas. Work was required to understand the requirement in more detail, identify assets that currently comply and compliant opportunities worthy of investigation.

Having considered the report, the Committee:

Resolved
That the Pension Fund Committee noted the report and agreed that work be undertaken to ascertain current levels of local investment and opportunities to go further.

11. PENSIONS SCHEME RISK REGISTER (Agenda Item 11):

The Pensions Manager introduced this report. He noted that The Pensions Fund risk register details the risks associated with the management of the scheme, including current assessment and planned actions and targets.

During the consideration of the item members discussed the risk of cyber security. It was noted that the Committee should capture this matter as a risk. It was requested by James Kennedy to know what type of security standard was deployed by the Bradford Council, who manage the cyber security risks for West Yorkshire Pension Fund. The Pensions Manager agreed to provide this information to members following the meeting.

Hymans Robertson representative Mr Nick Jellema provided some verbal comments in respect to cyber security which was noted by Board Members.

Having considered the report, the Committee:

Resolved

- The Committee requested that any changes to the register be reported to the Committee.

- The Pension Fund Committee noted the report

12. STEWARDSHIP UPDATE (Agenda Item 12):

The Head of Pensions Introduced the report. He said that the Committee had expressed an interest at becoming a signatory to the Stewardship Code in a previous meeting. Therefore, he noted that the report sets out the actions required to meet the standards of the Code and various alternatives that while not meeting Code standards would enhance current levels of stewardship

During the item the Chairman requested a report that outlines the cost and workings if the stewardship code is adopted. He said that this could be reported to a future meeting. This was agreed by the committee.

Having considered the report, the Committee:

Resolved

- That the Pension Fund Committee noted the report

That the pension fund committee agreed that a report be submitted to a future meeting

13. GOOD GOVERNANCE PROJECT (Agenda Item 13):

The Head of Pensions introduced the report. He said that the report set out a recommendation relating to Committee membership and includes a recommendation on observer status following discussion with the Local Pension Board.

Having considered the report, the Committee:

Resolved

That the Pension Fund Committee:

1. Approved the Policy on Pension Committee and Board Representation as documented in Appendix A.
2. That the Chairman of the Local Pension Board be invited to attend the Pension Fund Committee as an observer. That it be noted that the Local Pension Board have extended an invitation to the Chairman of the Pension Fund Committee or any other committee member to attend meetings of the Local Pension Board.

14. LOCAL PENSION BOARD UPDATE (Agenda Item 14):

The Head of Pensions informed Members that the Local Pensions Board terms of reference outlines a requirement for this report to be presented to this committee.

Having considered the report, the Committee:

Resolved

1. The Pension Fund Committee noted appendix A, B and C
2. The Pension Fund Committee are noted that the report shall be presented to the next meeting of Full Council

3. That the Pension Fund Committee approved the Local Pension's Board annual budget as set out in appendix A

15. ADMITTED BODY AND BOND STATUS (Agenda Item 15):

The Pensions Manager introduced this report. He outlined the outstanding admitted body and bond agreements, as well as bond renewals and cessation calculations, that need arranging.

Having considered the report, the Committee:

Resolved

- The Pension Fund Committee noted the progress on outstanding admitted body and bond agreements, including bond renewals and cessation valuations and that the Pension Fund Committee approve the admission into the Fund of Signature Education in respect of four contracts at Beit Shvidler School, Hasmonean Multi Academy Trust (MAT), Etz Chaim School and Menorah Foundation School as listed in 1.8. In addition, the Committee approved the admission of Sancroft Community Care.

- During the exempt session members consider the exempt information and agreed to defer any decision on this matter while awaiting legal advice.

16. PENSION FUND INVESTMENT PERFORMANCE (Agenda Item 16):

The Chairman welcomed independent advisor Yoel Deal. He provided an update on investment valuations, transactions and performance in the quarter to 31 December 2021.

Having considered the report, the Committee:

Resolved

- That the Pension Fund Committee noted the investment activities and performance of the Pension Fund for the quarter to 31 December 2021.
- That the exempt information be noted.

17. MOTION TO EXCLUDE THE PRESS AND PUBLIC (Agenda Item 17):

In regard to the exempt information in item 15 and 16 the Committee resolved- that under section 100 A(4) of the Local Government Act 1972 the public be excluded from the meeting for the following items of business 4 on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act (as amended).

18. PENSIONS FUND COMMITTEE WORK PROGRAMME (Agenda Item 20):

Resolved:

That the Committee approved the Work Programme.

19. ANY ITEM(S) THAT THE CHAIRMAN DECIDES IS URGENT (Agenda Item 21):

The Chairman noted that there was no urgent business. However, he did note that this meeting was the last in the municipal year and therefore he thanked all Members and Officer for there hard work during the year. He also wished all members the best for the up-and-coming election.

Councillor Anne Hutton thanked the Chairman, Members and Officers.

Vice-Chairman, Councillor Elliot Simberg thanked the Chairman Members and Officers.

Councillor Arjun Mittra noted his sadness of the loss of Councillor Anthony Finn.

The meeting finished at 19:40

AGENDA ITEM 7

Pension Fund Committee
11 July 2022

Title	**Administration Report**
Report of	Executive Director of Strategy and Resources (S151 officer)
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	None
Officer Contact Details	Mark Fox, Pensions Manager – 0208 359 3341

Summary

This report provides the Pension Fund Committee with an update on the current performance in relation to the administration of the Barnet Pension Fund by West Yorkshire Pension Fund (WYPF), along with other issues affecting the administration.

Officers Recommendations

The Pension Fund Committee are requested to note the current performance levels and updates on Annual Benefit Statements, GMP reconciliation project, Pensions Dashboard and McCloud judgement.

1. WHY THIS REPORT IS NEEDED

1.1 The efficient delivery of benefits is reliant upon effective administrative procedures being in place.

WYPF Performance

1.2 In May, WYPF processed **1,057** cases, with **89%** of cases being completed within the agreed Key Performance Indicators (KPIs) targets. The number of cases processed in this month and performance is lower this month. The reason for this is that, in the last few months, WYPF have recruited several staff to their administration teams. These new staff have required training from their colleagues which has caused the reduction in cases processed and within target.

1.3 The LBB Pensions Team are monitoring the WYPF performance closely and would expect that as the new staff are adequately trained, the performance should return to normal levels. We believe that at least 90**%** of cases should be processed within their KPI, although apart from the last couple of months, this has been around 95%.

1.4 Detailed reports on performance are provided to the Local Pension Board

1.5 WYPF work in progress levels remain high. As of the end of May there were over **2,500** outstanding items of work. This figure is partly due to WYPF starting to issue annual benefit statements, which raises statement queries or estimate requests from members.. As more statements are issued over the summer up to the 31 August deadline, WYPF workloads are likely to remain high.

1.6 The number of complaints and Internal Dispute Resolution Procedure (IDRP) cases received by WYPF remains low. Currently, there are two stage 1 IDRP appeals and one stage 2 IDRP appeal ongoing. Stage 1 appeals are adjudicated by the Assistant Director (Finance, Administration and Governance) at WYPF, and stage 2 appeals are adjudicated by the Pensions Manager at LBB.

1.7 A recent Stage 2 IDRP has resulted in an offer of £500 compensation for maladministration, and we are waiting for the member to confirm acceptance or not.

1.8 If the member is not satisfied with the result of the IDRP appeals, it can then be referred to The Pensions Ombudsman to adjudicate.

Annual Benefit Statements (ABS's)

1.9 The 2022 Annual Benefit Statements (ABS) have been produced for almost all deferred members and many active members.

1.10 As of 21 June, the figures were **99.9**% and **79.5**% respectively. This equates to one deferred member and c1,480 active members still requiring a statement to be produced. Most of the outstanding active ABSs are where a query has been raised with the employer. The LBB Pensions Team are working with WYPF to get these final statements produced.

GMP reconciliation project

1.11 Work is in the final stages of the project to ensure that members' Guaranteed Minimum Pensions (GMP) previously held on Capita records reconcile with the figure held by HM Revenue & Customs (HMRC).This project should be completed in early July.

1.12 GMPs affect active and deferred members, along with pensioners and spouses, where the member was in the fund before 6 April 1997.

1.13 WYPF may need to adjust the pensions for members where a different GMP is calculated.

Pensions Dashboard

1.14 The Pensions Dashboard will enable individuals to access their pensions information online, securely and all in one place, thereby supporting better planning for retirement and growing financial wellbeing.

1.15 All UK based pension Funds have to supply data to the pensions dashboards system. It is likely to commence in the spring/summer of 2023.

1.16 WYPF have updated their IT systems, so it is now fully compatible with the systems needed for the Pensions Dashboard and are currently testing the data that will be uploaded to the Pension Dashboard system.

1.17 WYPF have also met with TPR, who advised that they have or will shortly be writing to the Chairs of all Pension Fund Committee asking them to focus on the data quality requirements.

"**McCloud" ruling**

1.18 The "McCloud" judgement relates to two employment tribunal cases that were brought against the Government. In December 2018, the Court of Appeal ruled that the protection introduced following changes to public sector pension schemes, such as the LGPS, in 2014/2015 amounted to unlawful discrimination as the protections only applied to certain older members.

1.19 The protections were introduced for older members so the LGPS changes would not negatively impact their pension.

1.20 The result is that (with the final regulations likely to be published in the autumn) is that LGPS schemes will, for members in the Scheme between 1

April 2012 and 31 March 2022, need to do process two pension calculations on the old and new basis, with the higher amount paid.

1.21 This applies to current members, as well as members who have left, retired, died or transferred their benefits out of the Fund.

1.22 WYPF are currently updating their systems and checking data with employers to ensure that when the regulations do come into force, correct benefits can be calculated for all affected members.

2. REASONS FOR RECOMMENDATIONS

2.1 Not applicable

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not applicable

4. POST DECISION IMPLEMENTATION

4.1 Not applicable

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 By monitoring the performance of the pension fund administrators, good management of the Pension Fund is maintained. This is because the cost of providing benefits will be equitably split between all employers, thus enabling funds to be directed to Council priorities as set out in the Council's Corporate Plan for 2020-2024.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 There are no immediate financial implications from the report. However, it is important that performance is monitored to ensure that the Pension Fund is not liable to additional costs resulting from maladministration or poor service.

5.3 Social Value

5.3.1 Membership of the Pension Fund ensures the long term financial health of the contributing employees on retirement.

5.4 Legal and Constitutional References

5.4.1 The Council's Constitution – Article 7 – includes within it the responsibilities of the Pension Fund Committee. This includes to monitor the administration of

the Pension Fund. It is therefore considered appropriate for the Pension Fund Committee to receive this report.

5.5 **Risk Management**

5.5.1 Risk management is central to the LGPS. LGPS pension funds are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met. Good governance is essential to managing the risks of the pension fund.

5.6 Equalities and Diversity

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 3) fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010.

Good governance arrangements will benefit everyone who contributes to the fund.

5.7 **Corporate Parenting**

5.7.1 Not applicable in the context of this report.

5.8 **Consultation and Engagement**

5.8.1 Not required.

5.9 **Insight**

5.9.1 Not applicable

6. ENVIRONMENTAL IMPACT

6.1 None

7. BACKGROUND PAPERS

7.1 None

\1	AGENDA ITEM 8 **Pension Fund Committee** **11 July 2022**
Title	**Data Improvement Plan and Historical Leavers**
Report of	Executive Director of Strategy & Resources (S151 officer)
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	None
Officer Contact Details	Mark Fox, Pensions Manager – 0208 359 3341

Summary

This paper provides the Pension Fund Committee with an update on the data improvement plan and historical leaver exercise, together with details of the data preparations for the 2022 triennial valuation.

Officers Recommendations

The Pension Fund Committee are requested to note the progress on the correcting of the member data and the historical leaver exercise.

1. WHY THIS REPORT IS NEEDED

1.1 The presence and quality of data is a vital component to ensuring that benefits calculated and paid to pension scheme members are correct.

1.2 The administrators, West Yorkshire Pension Fund (WYPF), inherited data that requires correcting and updating to ensure it is up to the standard required to accurately calculate benefits and conform with the data quality requirements of The Pensions Regulator (TPR).

1.3 WYPF produced a data improvement plan ("the plan") to get the data up to the required levels.

1.4 In addition, WYPF inherited a large number of historical leavers that had not been processed. WYPF and the LBB Pensions Team are working with employers to ensure that these historical leavers are processed.

1.5 The Local Pensions Board have been updated on both the data improvement plan and progress on the historical leavers.

Data Improvement Plan

1.6 WYPF provide monthly data quality update reports to the LBB Pensions Team which gives the number of data items within the data improvement plan that still require updating.

1.7 Initially, there were **c28,500** data items that needed to be reviewed and updated. At the end of May, this had reduced to **c11,000**.

1.8 The Pensions Team meet with WYPF regularly to discuss areas in the data improvement plan that can be updated easily to speed up the process of correcting these data issues.

1.9 WYPF are working on four data areas where their IT Team are looking to update records in bulk. This is still ongoing. WYPF have advised once they introduce "character recognition" software, this will significantly reduce the number of data items outstanding in these areas.

1.10 The "character recognition" software, will help WYPF to obtain the missing data from the scanned images on members records. WYPF have identified a suitable software supplier, and this should be available in the early autumn.

1.11 WYPF and the Pensions Team have agreed that for some items of data, these can be classed as "nice to have" rather than vital. This is particularly relevant for missing pensioner data where benefits are already in payment. The are potentially around 2,000 data items that could be classed as "nice to have". These data items will not be updated as part of the data improvement plan unless there is member activity where this is required.

1.12 WYPF also provide update on both the common and conditional data scores These data scores are a method for measuring quantity of data and are reported to TPR in the Scheme Return.

1.13 A summary of progress in terms of the TPR data scores is shown below:

Month	TPR score - common	TPR score - conditional
February 2021	95.79%	41.27%
March 2021	95.81%	43.64%
April 2021	95.75%	64.08%
May 2021	96.10%	67.95%
June 2021	96.24%	69.33%
July 2021	96.47%	74.47%
August 2021	96.45%	75.77%
September 2021	96.59%	76.55%
October 2021	96.60%	76.92%
November 2021	96.23%	76.97%
December 2021	96.30%	77.62%
January 2022	96.65%	78.91%
February 2022	96.71%	78.58%
March 2022	96.71%	79.28%
April 2022	96.69%	79.66%
May 2022	96.63%	79.31%
June 2022	96.66%	79.31%

1.14 These figures show the presence of data held on members' records. Common data is data is needed so that a member can be uniquely identified, such as date of birth and national insurance number. Conditional data is used to calculate the member benefits, such as pensionable salary and service information.

1.15 Both data figures slightly vary as WYPF process the outstanding the historical leavers and find missing data, this is corrected as and when the leavers are processed.

1.16 The common data score is at the acceptable level for The Pensions Regulator (TPR). Conditional data does not have a score level set by TPR, however, the Pensions Team hope that, with the introduction of the character recognition software by WYPF, this score increases by the end of the year.

Preparation for the 2022 triennial valuation

1.17 To prepare for the 2022 triennial actuarial valuation, WYPF have submitted three test extracts of data to the Fund Actuary, to determine the quality of member data.

1.18 We have discussed the results with both WYPF and Hymans Robertson and actions were agreed for WYPF to get this data corrected.

1.19 WYPF will be submitting data again to Hymans Robertson at the end of June, which will leave a month for any corrections still outstanding to be made, as Hymans require the “clean” data by 31 July.

Historical Leavers

1.22 WYPF inherited **c1,500** “historic leavers” which increased to **c1,950**, following the work undertaken by WYPF in the 2021 Annual Benefit Statement (ABS) process. As of 20 June, the total number of leavers outstanding had reduced to **c1,070** with **c820** “historic leavers” still outstanding.

1.23 In March, the Pensions Team contacted all employers, with historic leavers outstanding, requesting that they submit leaver forms to WYPF by a deadline date (ranging from the end of April to end of May and dependant on the number of leaver forms that need to be submitted).

1.24 The employers were warned that if they did not submit the leaver forms by this deadline, the Pensions Team would:

- issue a fine to the employer for each leaver that has not been submitted – this is currently **£96** per member.
- Report employers to The Pensions Regulator for a breach of relevant Code of Practice.
- Write to all members where a leaver form has not been submitted to WYPF advising them that WYPF are unable to calculate their benefits due to the employer not providing the required information.

1.25 As of 7 June, a total of **31** fines had been issued to employers amounting to **£24,480**. One employer has to date paid their fine.

1.26 The issuing of fines has had a positive effect with most employers contacting the Pensions Team to discuss their leaver issues. Where this has been the case, the Pensions Team have agreed to waive the fine if employers submit the outstanding leaver notifications within a week.

1.27 The Pensions Team continue to work with employers and their payroll providers to get the leaver notifications submitted. This includes the Council, who initially had **c750** historical leavers. This has now reduced to **c570**.

2. REASONS FOR RECOMMENDATIONS

2.1 Not applicable

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not applicable

4. POST DECISION IMPLEMENTATION

4.1 Not applicable

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 By monitoring the performance of the pension fund administrators, good management of the Pension Fund is maintained. This is because the cost of providing benefits will be equitably split between all employers, thus enabling funds to be directed to Council priorities as set out in the Council's Corporate Plan for 2020-2024.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 There are no immediate financial implications from the report. However, it is important that performance is monitored to ensure that the Pension Fund is not liable to additional costs resulting from maladministration or poor service.

5.3 Social Value

5.3.1 Membership of the Pension Fund ensures the long term financial health of the contributing employees on retirement.

5.4 Legal and Constitutional References

5.4.1 The Council's Constitution – Article 7 – includes within it the responsibilities of the Pension Fund Committee. This includes to monitor the administration of the Pension Fund . It is therefore considered appropriate for the Pension Fund Committee to receive this report.

5.5 Risk Management

5.5.1 Risk management is central to the LGPS. LGPS pension funds are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met. Good governance is essential to managing the risks of the pension fund.

5.6 Equalities and Diversity

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing

equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 3) fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010.

Good governance arrangements will benefit everyone who contributes to the fund.

5.7 **Corporate Parenting**

5.7.1 Not applicable in the context of this report.

5.8 **Consultation and Engagement**

5.8.1 Not required.

5.9 **Insight**

5.9.1 Not applicable

6. ENVIRONMENTAL IMPACT

6.1 None

7. BACKGROUND PAPERS

7.1 None

	Pension Fund Committee AGENDA ITEM 9 **11 July 2022**
Title	**2022 Triennial Valuation**
Report of	Executive Director of Strategy and Resources
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Actuary valuation assumption paper Appendix B – Valuation Timeline
Officer Contact Details	David Spreckley, Head of Pensions and Treasury 020 8359 6264 david.spreckley@barnet.gov.uk

Summary

The funding position of the pension scheme and rate of contributions paid by employers is assessed every three years by the Scheme Actuary. The triennial valuation as at 31 March 2022 is commencing. The Pension Fund Committee will need to agree with the Scheme Actuary the basis of the assumptions to be used in the calculations. An additional meeting in September is proposed so that the Committee can be fully involved in the valuation process and sufficient time be allowed for employer consultations.

Officers Recommendations

That the Committee:

(1) Approve the proposed assumption in Appendix x for the Barnet Pool; and
(2) Agree to an additional meeting to be held in September to consider the Funding Strategy Statement.

1. WHY THIS REPORT IS NEEDED

1.1 The Committee are responsible for appointing a scheme actuary and commissioning a triennial actuarial valuation in addition to formulating long term funding and investment strategies that ensure that the scheme has sufficient assets to pay benefits as they fall due.

1.2 Every three years the Actuary assesses the funding position of the Pension Fund and determines the contributions payable by each employer for the next three years. The next valuation will be as at 31 March 2022 and the new contribution schedule will be effective from 1st April 2023.

1.3 A key part of the process is to determine the long-term assumptions to be used to calculate the actuarial liabilities and the level of confidence associated with that choice of assumption (i.e. the "prudence margin"). It is a legislative requirement that the collective assumptions used are set prudently. The Council's policy around actuarial assumptions is documented in a Funding Strategy Statement ("FSS").

High-level valuation timetable

1.4 A high-level overview of the valuation timetable is summarised below. A more detailed timetable is included as an appendix:

Item	Time frame
Review Funding Strategy Statement and consider changes to assumptions consistent with maintaining the prudence margin at 2019 levels to calculate initial results (Barnet Pool)	June / July 2022
Consider prudence levels across employer base recognising covenant risk	July 2022
Cleanse membership data to use for valuation	By 31 July 2022
Review draft results on initial prudence levels. Consider changes to prudence levels and likely contribution impact	Q3 2022
Consult with employers on any changes to Funding Strategy Statement	Q4 2022
Share draft results and contribution requirements with each employer	Q1 2023
Finalise results and implement Rates and Adjustment certificate	By 31 March 2023
New contributions come into effect	From 1 April 2023

How are contributions structured

1.5 Contributions are structured as:

- **Primary Contributions** – the contribution required to meet the cost of future benefits earned, usually expressed as a percentage of Pensionable Salary; and

- **Secondary Contributions** – any adjustment to the Primary Rate, usually to reflect and past service surplus or deficit within the Fund and usually expressed as lump sum payments.

Hymans' advice for initial 2022 results

1.6 Hymans Robertson have prepared initial advice setting out their recommendations on assumptions for the Barnet Pool assuming prudence levels are kept consistent with those used in 2019 (see Appendix [x]).

1.7 Under this approach Hymans are recommending a slight increase in expected return of assets (4.6% p.a. versus. 4.4% p.a. assumed in 2019) combined with an increase in future expected levels of inflation (2.7% p.a. versus 2.3% assumed in 2019). Note that the long-term inflation assumption suggested by Hymans is significantly lower than current prevailing inflation. We have queried this with Hymans and can confirm that Hymans' model broadly assumes that inflation will revert to the Bank of England's long-term target of 2.0% from around 2028.

1.8 In addition, Hymans are recommending that the long-term rate of improvements for life expectancy is increased to reflect evidence from Hymans 'Club Vita' longevity data set.

1.9 David Spreckley has held a meeting with Hymans to discuss the proposed actuarial assumptions and agrees that the proposals are appropriate to prepare initial results for the Barnet Pool. David Spreckley has scheduled a follow-up meeting to discuss the approach for other employers within the Fund.

What is the likely impact on contribution rates from these changes?

1.10 The impact will not be known until the actuary has completed the valuation with initial results expected in the autumn, but, at a high level we are expecting that:

- The combined impact of these changes is likely to lead to an increase in liability values relative to those assessed in 2019 and an increase to the Primary Rate of contributions.
- This is likely to be offset by very favourable investment returns on the Plan's assets (c8.9% p.a. versus 4.4% p.a. assumed).

1.11 At an aggregated level, the overall contribution requirement, assuming a consistent prudence margin to that adopted in 2019, is unlikely to increase as any increase to the Primary Rate is expected to be offset by a reduction to the Secondary Rate payable. However, the impact at an employer level may be different to this, particularly if the prudence margin is changed significantly relative to what was used in 2019.

Membership Data

1.12 The 2019 valuation was delayed by data quality issues. This impacted significantly on the ability of the Scheme Actuary to deliver the 2019 results in a timely fashion. In addition, data quality was a significant risk factor relating to the integrity of the valuation results.

1.13 Since the 2019 valuation there has been a change in Pension Scheme administrator and a Data Improvement plan to address any shortcomings with the data. The new administrator is making good progress in rectifying the data and we are not expecting data issues to significantly impact the valuation process this time.

1.14 However, there is a still some residual risk and a key milestone for the integrity of data will be when the Scheme Administrator uploads the data file to the Scheme Actuary's data portal. The portal reports back on critical data errors. This is scheduled to happen on the 30 June 2022 and so we will be in a position to feedback on progress at the July Pension Fund Committee meeting.

Funding Strategy Statement consultation

1.15 It is a requirement of legislation that the Administering Authority consults on any changes to the Funding Strategy Statement with interested parties, i.e. the Local Pension Board and employers within the Fund. It is good practice to give employers a meaningful amount of time to consider any changes (say 1-month) and take independent advice if required.

1.16 The Funding Strategy Statement would usually be approved by committee before it is issued for consultation. The next Committee meeting is scheduled for 10th November 2022. This does not give much time to launch a consultation on the Funding Strategy Statement before the results deadline.

1.17 This could be mitigated by either:

- Holding an additional, earlier, Pension Fund Committee meeting in, say September, to focus on the valuation (and any investment strategy changes); or
- Delegating the Pensions Team with the authority to issue a consultation on a draft Funding Strategy Statement ahead of the November Pension Fund Committee meeting with the results of the consultation being considered at the November meeting before formally signing-off any Funding Strategy Statement

2. REASONS FOR RECOMMENDATIONS

2.1 The actuarial valuation is a statutory requirement and the recommendations have been made to allow the valuation process to proceed.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Alternative approaches and assumptions are discussed in the actuaries' paper and reasons for the preferred options are explained.

4. POST DECISION IMPLEMENTATION

4.1 The actions set out in the actuarial timetable will be followed.

5. IMPLICATIONS OF DECISION

5.1 **Corporate Priorities and Performance**

5.1.1 Employers paid £48 million of contributions into the pension scheme in 2021/22. Changes in contribution rates can have a significant cashflow implication for employers and will impact on the Council's ability to spend in other areas.

5.2 **Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

5.2.1 There are no immediate financial implications from the report. However, higher deficits (particularly if sustained) may translate into higher contributions from the Council and other employers. Engaging with the Scheme Actuary during the 2022 triennial valuation will enable the Committee to identify ways to stabilise future contribution rates.

5.3 **Social Value**

5.3.1 Contributing to the Pension Fund ensures that contributing members have a secured income on retirement.

5.4 **Legal and Constitutional References**

5.4.1 The Council's Constitution (Article 7) – includes within the responsibilities of the Pension Fund Committee,
"To consider actuarial valuations and their impact on the Pension Fund."

5.4.2 The Local Government Pension Scheme Regulations 2013 (regulation 62) requires the Council to obtain an actuarial valuation of the assets and liabilities of each of its pension funds as at 31 March 2016 and as at 31 March in every third year afterwards. Regulation 58 requires the administering authority to prepare a funding strategy statement.

5.5 **Risk Management**

5.5.1 The level of prudence margin set with the actuarial basis impacts the level of risk pushed forward to future periods – the lower the prudence margin, the higher the likelihood that future cash contributions will need to increase.

5.5.2 The ability of employers to absorb future increases to cash contributions may be limited. At the same time, setting the prudence margin too high today may impact negatively on current budgets and the long-term viability of employers.

5.5.3 The accuracy of the valuation relies on the accuracy of the data provided to the actuaries. Any errors in the provision of the data could have a significant impact on the required contribution rates, particularly for the smaller scheduled and admitted bodies.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual

orientation.

5.7 **Corporate Parenting**

5.7.1 Not applicable in the context of this report.

5.8 **Consultation and Engagement**

5.8.1 Not required.

5.8 **Insight**

5.8.1 The report provides insight into the future direction of employers' contribution rates.

6. ENVIRONMENTAL CONSIDERATION

6.1 Not relevant.

7. BACKGROUND PAPERS

7.1 The Council's policy around actuarial assumptions is documented in a Funding Strategy Statement ("FSS"). The FSS for the 2019 valuation can be viewed: lbb_-_funding_stategy_statement.pdf (barnet.gov.uk)

London Borough of Barnet Pension Fund

Actuarial valuation at 31 March 2022

Advice on assumptions

Gemma Sefton FFA
Steven Scott FFA

30 May 2022

For and on behalf of Hymans Robertson LLP

Use the menu bar above to navigate to each section.

Contents

In this report:

A glossary of technical terms used in this report can be found in Appendix 5

Summary of recommendations

Assumption	Recommended approach	Comments
Future investment return assumption	Based on Hymans Robertson ESS model updated to latest market calibration	**Long term asset class return expectations are generally similar to 2019.**
Discount rate (ongoing participation)	Can be retained at the level of 2.0% above the risk-free rate at the same level of prudence (79%)	**No significant change in environment to suggest an increase or decrease in prudence levels.**
CPI inflation (benefit increases / CARE revaluation)	Based on Hymans Robertson ESS model	**Long term inflation expectations are slightly higher (c.0.2-0.3% p.a.) than 2019 due to current economic outlook and the effect of significant increases in short term inflation expectations.**
Salary increases	1% above CPI inflation (was 0.7% at 2019)	**2022 proposed assumption in line with 2019 long-term salary increase expectations. However, at 2019, allowance was made for short-term expected pay restraint. Given recent increases in National Living Wage and reduced impact on pension liabilities from short-term pay expectations, recommend that no allowance is made for any short-term pay restraint.**
Baseline longevity	Based on Club Vita analysis updated to reflect non-Covid related experience	**Longevity assumptions are tailored to the Fund's experience and membership**
Future improvements in longevity	Updated to CMI 2021 model with no weight on 2020/21 data with long term improvement of 1.5% pa	**Latest version of CMI model is best practice but avoid projections being affected by short-term Covid-19 experience**
Demographic assumptions (excluding longevity)	Adopt Hymans proposed demographic assumptions	**Based on LGPS wide experience – full information will be provide in the final valuation report**

The valuation process

The valuation process

1. **Assumptions advice** — **Now**
2. Employer risk management — Q2 2022
3. Contribution rate modelling — TBC
4. Data provision — Summer 2022
5. Funding Strategy Statement — Summer 2022
6. Whole Fund results — Q3/4 2022
7. Employer results — October 2022
8. Employer discussions — Q4 2022 / Q1 2023
9. Valuation sign off — March 2023

Assumptions advice

It's now time to set assumptions for the 2022 formal valuation, after taking advice from us as your Fund Actuary.

As part of this process you need to make four main decisions:

1. Agree the prudence level in the assumptions
2. Confirm approach and choice of financial assumptions (salary and pension increases)
3. Agree the life expectancy assumption, including how much weight is placed on recent years affected by COVID-19
4. Agree all other demographic assumptions

Why and how we set assumptions

Assumptions matter – projecting future benefit payments and assets

To determine the level of employer contributions we carry out two projections.

The **benefit projection** estimates the future payments that will be made to members, allowing for future pension increases, death and other events.

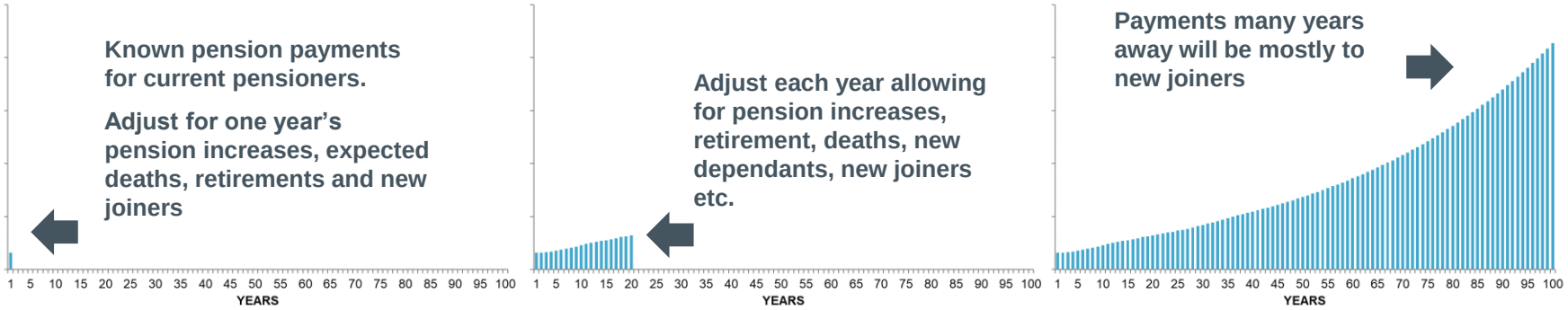
The **asset projection** takes into account future investment returns, contributions and benefits paid to members.

The contribution rates are set so at the funding time horizon, there are enough assets to meet future benefit payments in a sufficiently high number of future economic scenarios – the funding objective.

Because we can't see into the future, the projections mean working with uncertainty and require assumptions.

We review assumptions regularly to make sure they're relevant to the financial, demographic and regulatory environment.

Illustration: how we project benefit payments



Two types of assumptions:

1. **Financial** assumptions (like inflation) affect the amount of payments and asset values.

2. **Demographic** assumptions (like how long members live) affect the timing of payments.

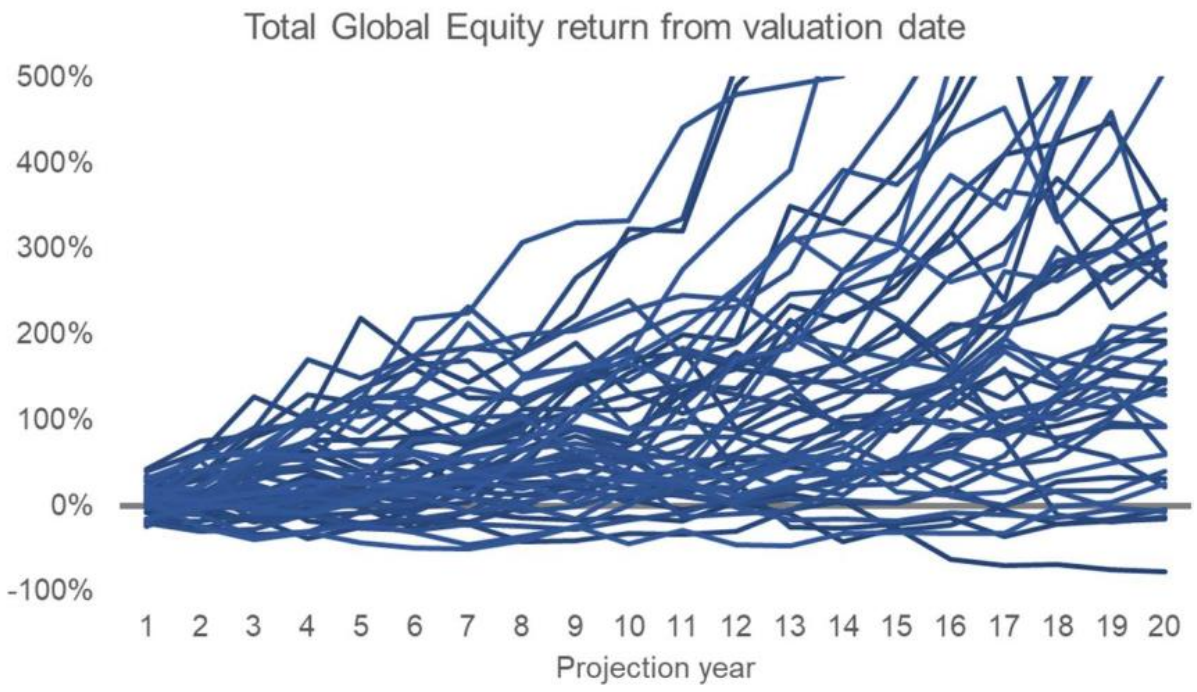
Assumptions and our valuation approach

We use a "risk-based" approach to calculating the benefit and asset projections.

Under this approach, we use an economic scenario generator (Hymans Robertson's proprietary generator is called the Economic Scenario Service – ESS) to produce 5,000 different simulations of future economic conditions and associated assumptions.

The assumptions in each scenario vary by year i.e. they are not 'flat', so they are a better representation of reality than a single, linear assumption.

The chart shows a sample of the 5,000 simulations for future cumulative total returns on global equities over the next 20 years.



This approach allows the generation of a distribution of future benefit and asset projections so all stakeholders in the Fund can better understand risk.

What assumptions are needed

Assumption	Description	Required for
Financial assumptions		
Future investment return	Projected annual returns and volatility on asset classes invested by the Fund e.g. UK equities, property etc.	**Asset projection** – to project employers' asset shares to the end of the funding time horizon
Discount rate	Annual rate of future investment return that will be earned on the Fund's assets after the end of the funding time horizon	**Funding objective** – to place a present value at the end of the funding time horizon of the future benefit payments
CPI inflation (benefit increases / CARE revaluation)	Future Consumer Price Index inflation	**Benefit projection** – to determine the size of future benefit payments (LGPS benefits are index-linked to CPI inflation)
Salary increases	Future inflationary salary awards	**Benefit projection** – to determine the size of future benefit payments (the pre-2014 final salary benefits are linked to salary) **Asset projections** – to determine future payroll values (and hence contribution income)
Demographic assumptions		
Baseline longevity	How long we expect members to live based on current observed death rates	**Benefit projection** – to determine how long each member's benefits are paid for
Future improvements in longevity	How death rates are expected to change in the future (historically life expectancy has improved over time)	**Benefit projection** – to determine how long each member's benefits are paid for
Other demographic events	Events such as retirement age, rate of ill health retirement, level of commutation and 50:50 take up	**Benefit projection** – to determine the size and timing of future benefit payments

How we review and set assumptions

Our approach

1. **Look at the assumptions from the last valuation**
2. **Review evidence and consider the landscape:**
   - Changes in financial/economic conditions
   - Regulation and guidance
   - Population and general pension scheme statistics
   - Fund specific data and experience, especially members' demographic characteristics
   - Future trends
   - Assessment of employers' financial strength
   - Investment strategy
   - Fund views – and employer views in some cases (e.g. salary increases)
3. **Propose, discuss and agree changes to set new assumptions**

Acknowledging uncertainty

There is no certainty about how the future may evolve and it is important to acknowledge this uncertainty during the valuation. Understanding the impact of the future deviating from the assumptions on funding levels and contribution rates is an important aspect of how the Fund manages risk.

Ways of understanding the impact:

- **Stress testing –** measures immediate changes in assumptions by testing alternatives at valuation date. We will stress test the longevity assumptions as part of the valuation.
- **Risk-based modelling –** risk-based approach involves projecting a wide range of possible future outcomes. There is no single figure for an assumption – instead, we work with a future range. We use a "risk-based" approach to calculate the benefit and asset projections and set the underlying financial assumptions.
- **Scenario projection –** considers future projections across different scenarios, bringing together relevant factors for a better understanding of overall impact. We will use different climate change scenarios at the valuation to help you understand this risk.

Most assumptions are a best estimate, set objectively without margins for adverse experience.
A prudent discount rate assumption meets the requirement (from LGPS guidance) for a 'prudent' valuation.

Other factors affecting assumptions at the 2022 valuation

Climate change

Climate change will affect many aspects of the Fund's assets and liabilities, for example the return on its assets, the inflation used to revalue benefits and the longevity of its members. The uncertainty around future climate pathways and their impact means that it is impossible to factor climate change considerations meaningfully into every assumption described in this paper.

We will however consider climate change scenarios when setting the long-term longevity improvements assumption, and the Fund will consider climate risk in its funding strategy by testing the resilience of the strategy in three climate scenarios.

Possible benefit changes

McCloud

Benefits accrued by certain members between 2014 and 2022 may be increased in future following the outcome of the McCloud case, which ruled that transitional protections introduced in 2014 to older members were discriminatory. We will make an allowance for the cost of these potential improvements in the 2022 valuation, based on the assumptions agreed here (in particular the salary increase and withdrawal assumptions). The impact is expected to be minimal for the majority of employers.

Cost sharing mechanism

Benefits could also change as a result of the 2016 and 2020 "cost cap" valuations, neither of whose outcome has been completely confirmed. If new assumptions are necessary to value any potential changes we will agree these separately.

Guaranteed Minimum Pension equalisation and revaluation

As per our approach for the 2019 valuation, we will assume that the Fund will fund all increases on GMP for members with a State Pension retirement date after 5 April 2016.

Other legal cases

Benefits could change as a result of other legal challenges (e.g. the "Goodwin" case affecting partner pensions), but at present we do not believe any additional assumptions are needed to value these.

Financial assumptions

Financial assumptions

Approach to setting **financial** assumptions

1. **Hymans' proprietary economic model, the Economic Scenario Service (ESS), is used to generate 5,000 different simulations of the future**
2. **ESS generates a range of future benefit and asset projections so stakeholders can better understand risk (hence "risk-based" approach)**
3. **Projections allow for different levels of inflation and returns across all asset classes**
4. **No single assumption for future investment returns or inflation**

Comparison with 2019

Here are how some of the main ESS assumptions have changed since 2019. Full details are in Appendix 1

Assumption	31 March 2019	31 March 2022
CPI inflation	2.2%	2.7%
Global equity returns	5.8%	6.2%
Index-linked gilt returns	0.3%	0.1%
Corporate bond returns	1.9%	1.5%

Figures are median annualised values over years 0-20. ILGs and Corporate Bonds are medium duration, the latter is A rated.

The outlook for inflation is worse compared to 2019, however the outlook for return seeking assets has improved.

Key decision

A discount rate is needed to place a prudent value on the benefit payments due after the funding time horizon. This value determines each employer's funding objective. The level of prudence is a key funding decision.

The discount rate is set relative to risk-free rates so that it varies according to the economic conditions in each of the 5,000 projections.

Investment return and discount rate assumptions

2019 approach	• **Investment return assumptions:** Risk-based approach to generate future investment returns, based on Fund's investment strategy • **Future discount rate assumption:** Assumed future investment returns are generated for each asset class from the ESS and combined into an overall portfolio return • At 2019, the future discount rate was set at 2.0% p.a. above the risk-free rate.
Considerations	**Maintaining the same discount rate assumption** • The prudence level is the likelihood of the Fund's investment strategy achieving the desired excess return over years 20-40 • At 2019, there was a 79% prudence level associated with a future discount rate based on the risk free rate plus 2.0% p.a. • As at 31 March 2022, the same future discount rate assumption is still associated with an prudence level of 79%. **Change in level of prudence** • A lower level of prudence could be justified, e.g. a future discount rate assumption of 2.4% in excess of the risk free rate is associated with a prudence level of 75%. • A review of the level of prudence at the 2022 valuation should consider the possibility of changes in investment strategy in the short to medium term. • More information on the probabilities associated with different investment return assumptions is provided in the following page.

RECOMMENDATION:

Continue to use the ESS to generate future investment returns

Retain future discount rate assumption of 2.0% p.a. above risk-free rate (ongoing participation)

IMPACTS:

The money you are aiming to hold to meet benefit payments and the target for investment return

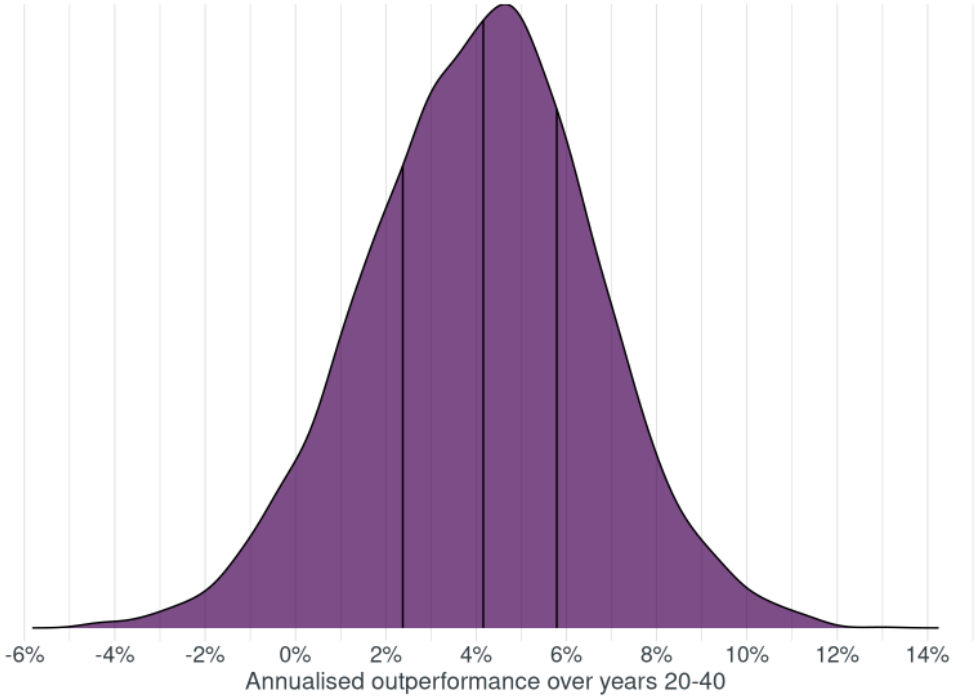
SIGNIFICANCE:

No change to proposed future discount rate assumption (risk free plus 2.0%)

43 The investment strategy used in our analysis is set out in Appendix 2

Range of future investment returns (above risk free rate)

Annualised return percentiles over the period 20 to 40 years relative to cash:



Likelihood	Margin above risk free rate pa
95%	-0.2%
90%	0.8%
85%	1.4%
80%	1.9%
79%	**2.0%**
75%	2.4%
70%	2.8%
65%	3.1%
60%	3.5%
55%	3.8%
50% (Best Estimate)	4.2%

Benefit revaluation and pension increases

2019 approach	Benefit projections were assumed to be in line with CPI projections from the ESS model
What's changed since the previous valuation?	Increased inflation expectations, perhaps due to a combination of government actions during the Covid-19 pandemic, Brexit-related supply pressures and/or energy & food related supply pressures arising from the conflict in Ukraine.
Proposed approach for the 2022 valuation	No change in approach, but use updated ESS calibration reflecting current market outlook in the short-medium term. The ESS calibration allows for anticipated short term increases in CPI.

RECOMMENDATION:

CPI inflation will be derived from the updated calibration of the ESS model

IMPACTS:

The increase applied to benefits each year

SIGNIFICANCE:

Increase in assumed future inflation will increase inflation linked liabilities

Salary increases

2019 assumption	CPI + 0.7% pa, plus a promotional salary scale We will only consider the inflationary element here
2019 approach	At the 2019 valuation, the assumption for 'inflationary' increases was based on an underlying assumption of short-term pay restraint (2.0% to 2023) followed by long-term increases in line with CPI inflation + 1.0%. After allowing for the expected run-off of the Fund's final salary (pre-2014) linked benefits, this gave an assumption of CPI + 0.7%.
Things to consider	**Run off of final salary liabilities:** it is expected that this will be more gradual than at previous valuations and therefore the impact of any short-term pay restraint is negated **McCloud remedy:** many members' benefits earned between 2014 and 2022 will retain a link to final salary, further negating the impact of any short-term pay restraint **Impact of Covid-19 on budgets:** the impact of the pandemic on public and private sector finances may mean lower future salary increases **National living wage increases:** recent years have seen an above inflation rise in the National Living Wage (NLW) and an increasing number of employers adopting this as their minimum wage. Although the NLW is aimed at the lowest paid, these recent increases will put pressure on salary rates across the whole workforce as employers may feel the need to keep the increments between staff consistent to adequately reward those with more responsibility or experience.

RECOMMENDATION:

No allowance made for short-term restraint with no change from 2019 long-term assumption CPI+ 1.0% pa (plus a promotional salary scale)

IMPACTS:

The benefits paid to members with service earned prior to 31 March 2014

Payroll projections used for contribution modelling

The estimated cost of the McCloud remedy

SIGNIFICANCE:

Less significant than in previous valuations

Reporting the funding level

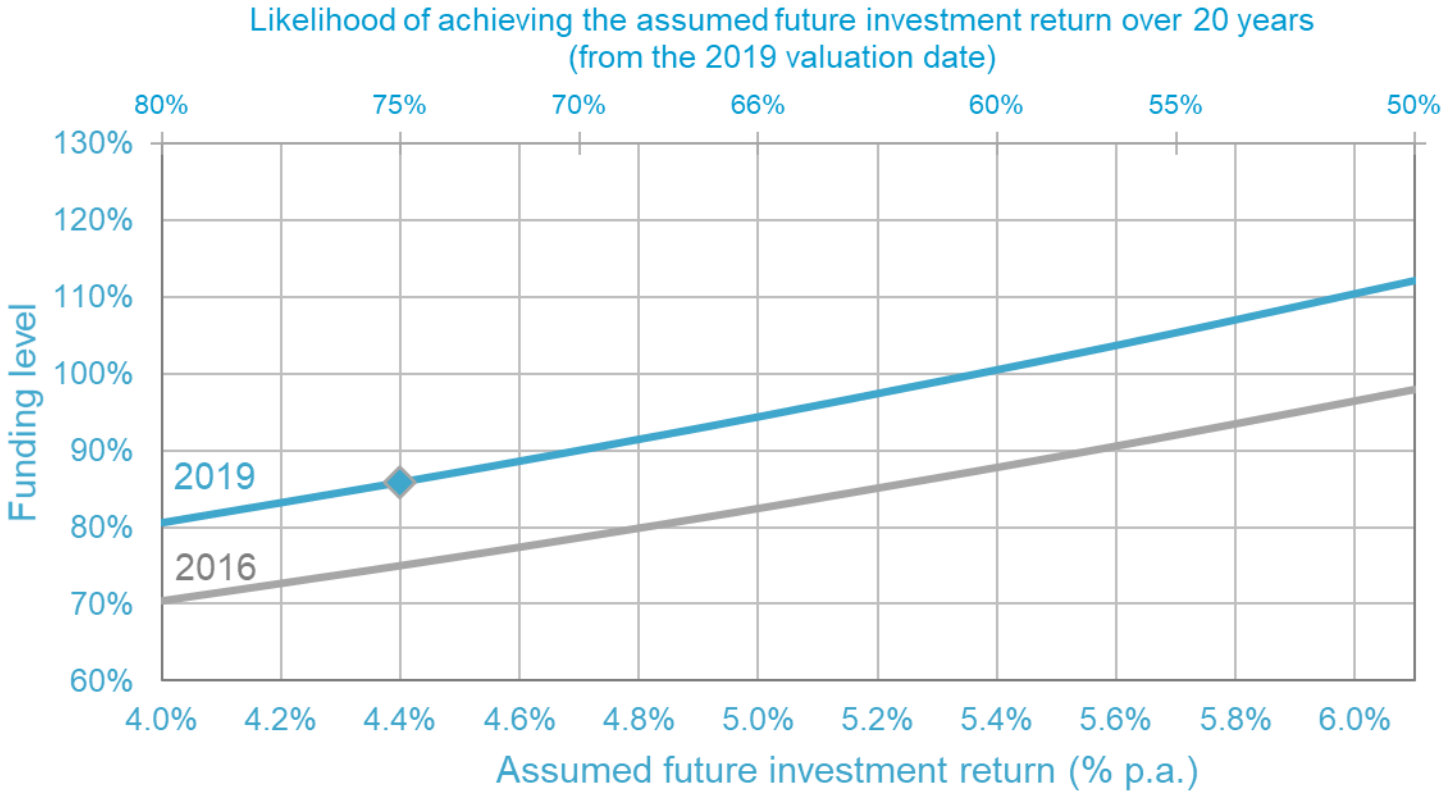
As well as setting contributions, a key output of the valuation is a measurement of past service liabilities at the valuation date itself to determine the funding level.

To report a funding level, we need to use a single value for each assumption (compared to the risk-based approach used for contribution rate setting).

To ensure consistency between the reported funding level and employer contribution rates, we still use the ESS to derive the assumptions used to report the funding level. These assumptions are summary statistics of the 5,000 individual simulations used to project forward assets and benefit payments when setting contributions.

At the 2019 valuation, we showed how the funding level at the valuation date varied with the choice of future investment return and the likelihood of the Fund's assets yielding at least a given investment return (based on the ESS simulations).

This was all detailed in this chart. A similar chart will be shown in your 2022 valuation preliminary results report.



Assumptions for reporting the funding level

2019 approach	Funding level was reported using an assumed investment return assumption of 4.4%, which had an associated prudence level of 75% Pension increases were based on market-implied RPI inflation minus 1% p.a.
Proposed approach for the 2022 valuation	In general the approach is the same as already discussed, except that instead of 5,000 projections we choose a single value from those projections as follows: **Assumed investment return** Use the same approach as in 2019 with the same prudence level as used for the discount rate, i.e. 75%. This gives an assumed investment return of 4.6%. For information, the likelihood of achieving returns of at least 4.4% over the next 20 years (ie the same assumption that applied at the 2019 valuation) is 77%. **Pension increases** Use the median projected CPI inflation from the ESS over the next 20 years (equivalent to 2.7% p.a. as at 31 March 2022). This is an increase from 2019 (and is due to the factors outlined on page 16). **Salary increases** Assume salary increases of 1.0% p.a. above median projected CPI as mentioned above

RECOMMENDATION:

Use prudence level of 75% for the assumed investment return, and assume pension increases in line with the median projected CPI inflation from the ESS

IMPACTS:

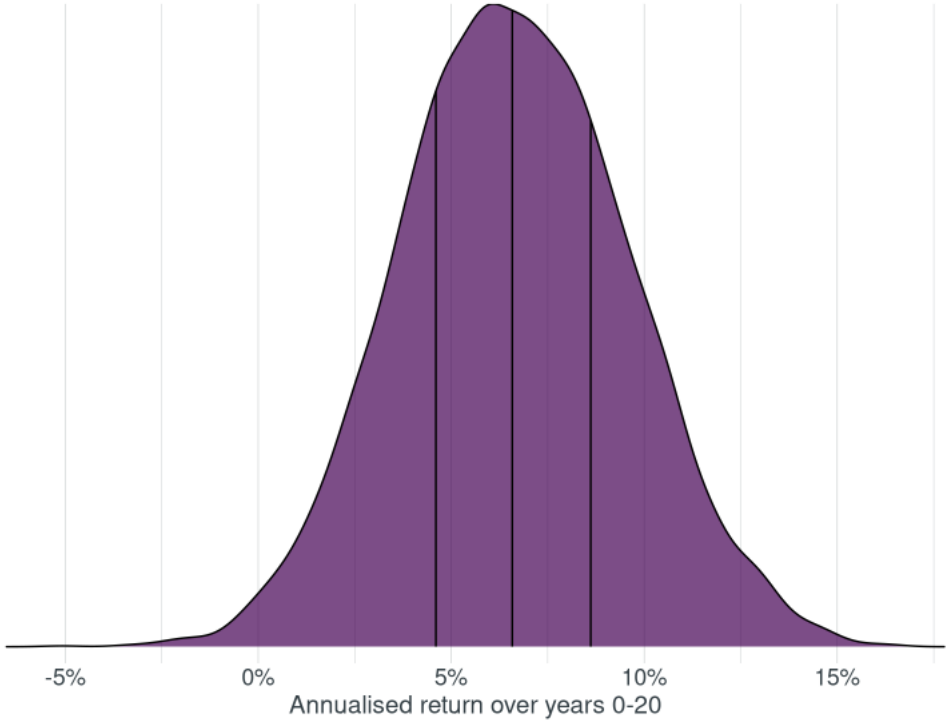
Reported funding level.
Does not affect contributions.

SIGNIFICANCE:

For reporting and tracking the funding level only

Range of future investment returns (for reporting the funding level)

Annualised return percentiles over the period 0 to 20 years:



Likelihood	Return pa
95%	1.9%
90%	2.9%
85%	3.6%
80%	4.1%
75%	**4.6%**
70%	5.0%
65%	5.4%
60%	5.8%
55%	6.1%
50% (Best Estimate)	6.6%

Longevity assumptions

Breaking it down

Your **longevity** assumptions

How long you expect to pay a pension to each member and their dependants.

=

Baseline

- A snapshot of how long people currently live
- Measured **objectively** based on recent mortality data
- Use Club Vita analytics for a **tailored best estimate** based on members' characteristics
- Reflects that people with certain characteristics tend to live longer (women, non-ill-health retirees, higher affluence, non-manual workers)

+

Future improvements

- How life expectancy increases over time
- Shorter-term expectations reflecting recent trends
- Longer-term expectations reflecting historical trends **plus** evidence that improvements may be higher or lower than historical trend
- **Subjective** – wide range of possible outcomes

Evidence based baseline + informed future judgement

Baseline

2019 approach	Club Vita tables tailored to fit each individual member of the Fund
What's changed since the previous valuation?	Current assumptions capture the unique mix of people in your scheme using experience across the Club Vita database of similar individuals to identify a baseline longevity assumption for each member. But new evidence on longevity emerges yearly. Since your last valuation more data has been gathered and VitaCurves have been updated.
Proposed approach for the 2022 valuation	Adopt the latest member-specific Club Vita base tables – a consistent approach that captures a more up-to-date experience. We will make an appropriate adjustment to recent data to avoid the assumption being skewed by excess deaths due to Covid-19 in 2020 and 2021
Other comments…	The Covid-19 pandemic has unfortunately resulted in increased morbidity and death since 2020. It is likely that we will see higher than expected death experience since the 2019 valuation. This will result in a decrease in liabilities as the Fund will be paying out less pension than expected. However, our initial estimates for a typical LGPS fund suggest that the reduction in liabilities due to the higher number of deaths will only be a decrease of 0.1-0.2%

RECOMMENDATION:

Latest member-specific Club Vita mortality base tables, adjusted to avoid being skewed by Covid-19.

IMPACTS:

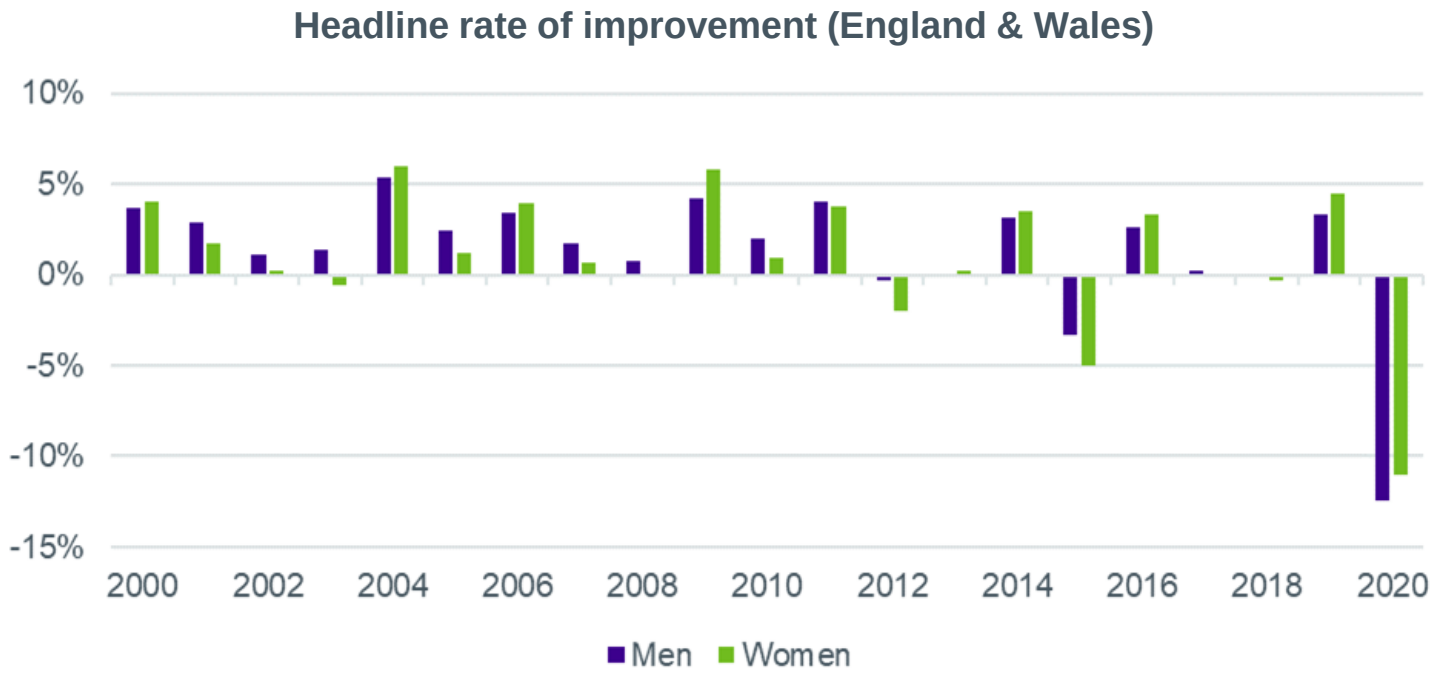
How long you expect to pay a pension to each member and their dependants.

SIGNIFICANCE:

Small change in base table to reflect up-to-date experience

Future improvements - recent experience snapshot

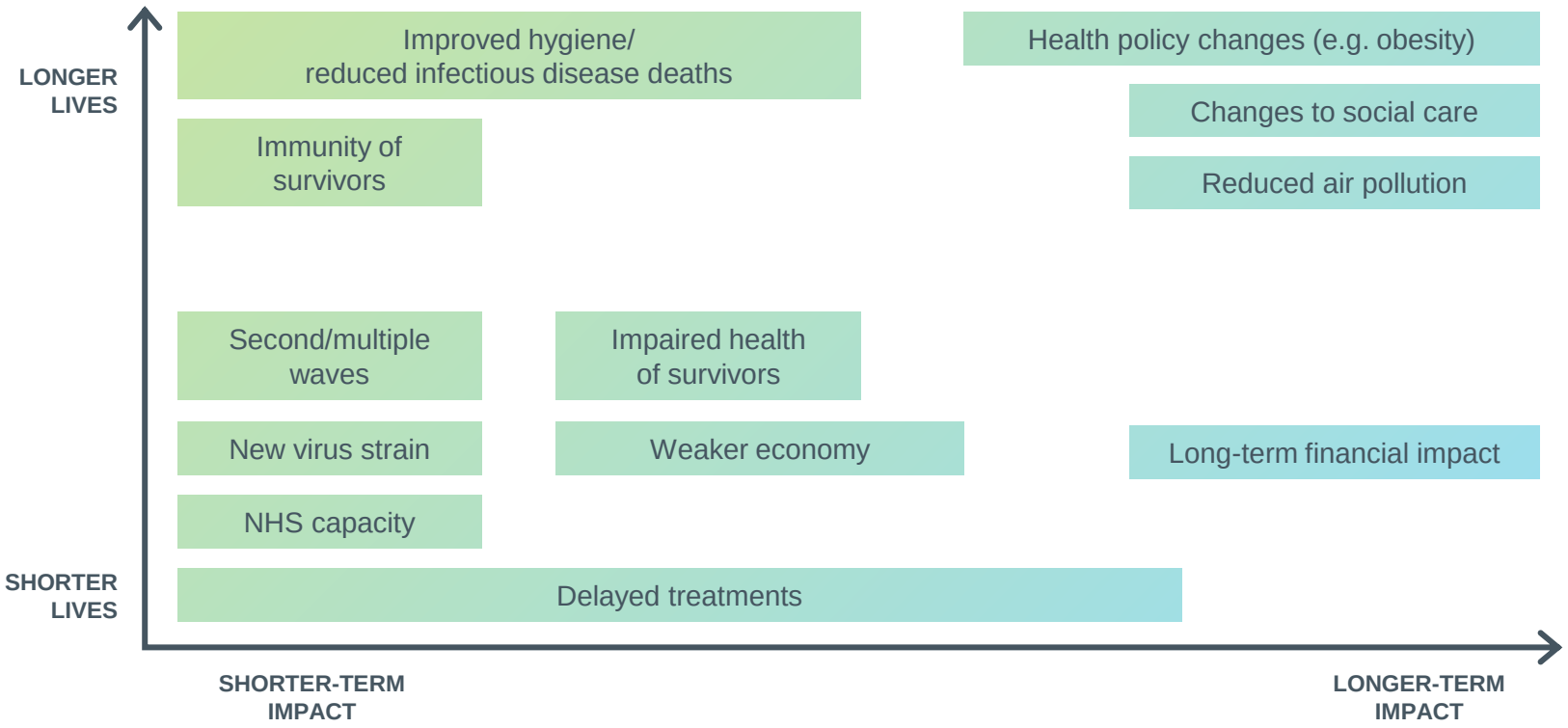
- Lower improvements in longevity at population over recent years, however more affluent pensioners have not seen the same level of slowdown. Adopting starting rates based on population-level data risks understating current rates of improvement for your members.
- COVID-19 meant 2020 death rates were significantly higher at population level than previous years.
- The immediate impact from actual experience over the period to a Fund's valuation date will be accounted for in the valuation data. However, for most schemes this impact is relatively low.
- There is uncertainty over how the Covid-19 pandemic will impact the course of future longevity improvements in the medium to longer term.
- This uncertainty means schemes should be wary of weakening mortality assumptions materially from those adopted previously.



Source: Annual improvement in standardised mortality rate, based on data from ONS for England & Wales, as published by the CMI alongside CMI_2020

Future improvements - future COVID-19 impact

- No consensus on the pandemic's impact on mortality for pension schemes.
- CMI model now allows 2020 and 2021 data to be treated differently (or ignored), reflecting that it is an exceptional period not necessarily indicative of a future mortality rate trend.
- Most funds unlikely to make an explicit allowance at this time



Too early to judge future impact – points to no explicit allowance

Future improvements

2019 approach	The starting point is the Actuarial Profession's CMI model, which is updated annually with the latest observed mortality data. At the 2019 valuation we used CMI_2018 with default smoothing parameters, an initial addition of 0.25% for females/0.5% for males and long-term rate of improvement of 1.25% pa.
Proposed approach for the 2022 valuation	Use the latest available CMI model (CMI_2021) with the parameters adjusted as follows: **Weight placed on 2020 and 2021 experience (W parameters)** Given that both 2020 and 2021 have been significantly affected by the Covid-19 pandemic, **we would recommend that no weight is placed on data from these years**. This will avoid overstating the impact of the pandemic on long-term rates of improvements, as we have little evidence of the long-term effects at this stage. **Adjustment to observed data to reflect scheme membership (A parameter)** The A parameter allows users to adjust the starting point for the projections in the model to reflect the difference between the population-wide data used in the model and the Fund's own membership. Based on analysis carried out by Club Vita, we recommend using an A parameter of 0.25%. **Long-term improvement rate (LTR parameter)** Club Vita analysis suggests a reasonable long-term trend of 1.5% annual improvements in longevity. The strength of this recommendation has increased since the previous valuation and the arguments to keep it at 1.25% (e.g. the LGPS mechanisms which supposedly mitigate longevity risk like the Cost Cap) have weakened, so we now recommend using 1.5%.

RECOMMENDATION:

Latest available CMI model with an A parameter of 0.25%, long-term rate of improvement of 1.5% pa and no weight given to 2020 data.

IMPACTS:

How long you expect to pay a pension to each of member and their dependants.

SIGNIFICANCE:

Increase liabilities by 1-2% vs 2019 assumption

55 Further information about the future improvement assumption is set out in Appendix 3

Decisions and next steps

Decisions for today

1. Agree the prudence level in the assumptions
2. Confirm approach and choice of financial assumptions (salary and pension increases)
3. Agree the life expectancy assumption, including how much weight is placed on recent years affected by COVID-19
4. Agree all other demographic assumptions

The valuation process

1. **Assumptions advice** — **Now**
2. Employer risk management — Q2 2022
3. Contribution rate modelling — TBC
4. Data provision — Summer 2022
5. Funding Strategy Statement — Summer 2022
6. Whole Fund results — Q3/4 2022
7. Employer results — October 2022
8. Employer discussions — Q4 2022 / Q1 2023
9. Valuation sign off — March 2023

Appendices

APPENDIX 1

Economic Scenario Service (ESS)

The ESS uses statistical models to generate a future distribution of year-on-year returns for each asset class e.g. UK equities. This approach is also used to generate future levels of inflation (both realised and expected). The ESS is also designed to reflect the correlations between different asset classes and wider economic variables (e.g. inflation).

In the short-term (first few years), the models in the ESS are fitted with current financial market expectations. Over the longer-term, the models are built around our long-term views of fundamental economic parameters e.g. equity risk premium, credit-spreads, long-term inflation etc.

The ESS is calibrated every month with updated current market expectations (a minor calibration). Every so often (annually at most), the ESS is updated to reflect any changes in the fundamental economic parameters as a result of change in macro-level long-term expectations (a major calibration). The following table shows the calibration at 31 March 2022.

		Annualised total returns																			
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	Developed World ex UK Equity	Private Equity	Property	Emerging Markets Equity	Unlisted Infrastructure Equity	Multi Asset Credit (sub inv grade)	Asset Backed Securities (AA rated) GBP	Asset Backed Securities (BBB rated) GBP	Direct Lending (private debt) GBP Hedged	CorpShort A	CorpMedium A	CorpShort BBB	CorpMedium BBB	Inflation (RPI)	Inflation (CPI)	17 year real yield (CPI)	17 year yield
10 years	16th %'ile	0.8%	-1.9%	-0.3%	-0.7%	-1.2%	-0.6%	-2.5%	0.7%	1.7%	1.1%	1.3%	2.7%	1.4%	-0.1%	1.3%	0.0%	2.4%	1.6%	-1.7%	1.1%
	50th %'ile	1.8%	0.2%	1.1%	5.6%	9.4%	4.4%	5.8%	5.9%	3.5%	2.3%	2.9%	6.0%	2.4%	1.6%	2.7%	1.9%	4.1%	3.3%	-0.5%	2.5%
	84th %'ile	2.9%	2.4%	2.4%	11.7%	20.1%	9.5%	14.4%	11.2%	5.2%	3.6%	4.5%	9.2%	3.4%	3.2%	3.9%	3.6%	5.7%	4.9%	0.7%	4.3%
20 years	16th %'ile	1.0%	-1.5%	0.7%	1.5%	2.4%	1.4%	0.1%	2.6%	2.8%	1.5%	1.9%	4.3%	2.0%	1.1%	2.2%	1.3%	1.6%	1.2%	-0.7%	1.3%
	50th %'ile	2.4%	0.1%	1.5%	6.1%	10.0%	5.0%	6.3%	6.5%	4.4%	3.0%	3.5%	6.8%	3.2%	2.1%	3.5%	2.5%	3.1%	2.7%	1.1%	3.2%
	84th %'ile	4.0%	1.9%	2.2%	10.8%	17.6%	8.9%	12.8%	10.6%	6.0%	4.7%	5.4%	9.2%	4.6%	3.2%	5.0%	3.6%	4.7%	4.3%	2.7%	5.7%
40 years	16th %'ile	1.2%	-0.3%	1.5%	3.1%	4.7%	2.6%	2.1%	3.9%	3.6%	1.8%	2.3%	5.5%	2.4%	2.0%	2.6%	2.3%	1.1%	0.9%	-0.6%	1.1%
	50th %'ile	2.9%	1.2%	2.3%	6.5%	10.3%	5.5%	6.8%	7.0%	5.3%	3.5%	4.0%	7.7%	3.9%	3.1%	4.2%	3.4%	2.4%	2.2%	1.3%	3.3%
	84th %'ile	4.9%	3.1%	3.5%	10.2%	16.1%	8.8%	11.7%	10.3%	7.1%	5.6%	6.3%	10.0%	5.8%	4.4%	6.2%	4.9%	3.9%	3.7%	3.2%	6.1%
	Volatility (Disp) (5 yr)	2%	7%	6%	19%	30%	15%	26%	15%	6%	3%	4%	10%	3%	7%	4%	7%	3%	3%		

The current calibration of the model indicates that a period of outward yield movement is expected. For example, over the next 40 years our model expects the 17 year maturity annualised real (nominal) interest rate to rise from -2.2% (1.9%) to 1.3% (3.3%)

APPENDIX 2

The Fund's asset allocation

The table sets out the long-term strategic asset allocation we have used for the analysis of the future expected investment returns for the Fund and the subsequent discount rate recommendations.

This asset allocation was provided by the Fund's Investment Consultants at Hymans Robertson.

Asset class	Allocation
Global Equities	40.0%
Emerging Market Equities	5.0%
Property	6.0%
Private Equity	5.0%
Infrastructure Equity	8.0%
Corporate bonds	10.0%
Asset backed securities	6.0%
Private lending	13.0%
MAC	7.0%
Total	100.0%

APPENDIX 3

Additional detail on longevity assumptions

Longevity improvements – initial addition (A parameter)

The CMI model is based on England & Wales population mortality data. Evidence suggests that most members of an occupational pension scheme (e.g. the LGPS) have experienced higher improvements in life expectancy than the general population in recent years. The A parameter allows users to adjust the starting point for the projections in the model to reflect this differing experience.

To help set this parameter, Club Vita have undertaken some analysis to calculate mortality improvement rates split by socio-economic group. The results are shown in the table along with the England & Wales rates within the core CMI_2021 model.

This analysis is consistent with similar analysis performed by the CMI, which found higher longevity improvements in less deprived population groups (IMD deciles 8-10). These results are also shown in the table for comparison.

	Annualised mortality improvement (2013 – 2018)	
	Men	Women
England & Wales (core CMI)	0.9%	0.6%
Club Vita 'Comfortable'	+0.3% vs. E&W	+0.5% vs. E&W
Club Vita 'Making-Do'	+0.5% vs. E&W	+0.5% vs. E&W
Club Vita 'Hard-Pressed'	-0.2% vs. E&W	+0.7% vs. E&W
CMI analysis IMD deciles 8-10 (more affluent)	+0.1% vs E&W	+0.4% vs E&W

Both analyses show that in recent years, more affluent individuals have enjoyed higher than average improvements in life expectancy. It is these individuals that also tend to dominate the liabilities of the Fund.

The majority of the Fund's liabilities relate to those members in the making-do and hard-pressed groups, corresponding roughly to IMD deciles 8-10. Based on the figures above, we recommend using the A parameter to adjust the starting point in the CMI model by 0.25%.

APPENDIX 3

Additional detail on longevity assumptions

Longevity improvements – long-term rate (LTR)

Life expectancy has improved consistently since at least the turn of the 20th century thanks to many factors such as better public health, improved medical treatments, better diet and lower rates of smoking.

We need to consider how (or if) the improvements we have seen in recent years will continue into the long-term. As a starting point, the recent trend (which is arguably the most informative for us) suggests a long-term rate of between 1.25% and 1.5% p.a..

The table on the right summarises possible future drivers of change in the long-term rate of improvement compared to this level.

Slide 26 also included factors specific to Covid-19, and Club Vita have also considered Covid-19 and Climate Change in detail.

Higher future improvements	Lower future improvements
Stronger government intervention – e.g. to reduce alcohol or red meat consumption	Less scope for future 'gentrification' – i.e. the change in affluence levels of pensioners can't keep increasing at the rate it has done
Medical innovation – as we have seen with the development of new Covid-19 vaccines. Could also include "super drugs" that tackle multiple diseases at once	Smoking – the benefit from widespread quitting has already happened and can't happen again
Anti-ageing treatments and regenerative medicine – could become a reality	Obesity – rates may increase leading to poorer health in retirement
Climate change – could lead in the UK at least to milder climates and fewer cold-weather deaths	Super-bugs – antibiotic-resistant diseases could make routine medical procedures and treatments untenable
	Climate change – could lead to resource scarcity, higher food prices, less availability of fresh food, etc

APPENDIX 4

Reliances and limitations

This paper is addressed to London Borough of Barnet as Administering Authority to the London Borough of Barnet Pension Fund. It has been prepared in our capacity as actuaries to the Fund and is solely for the purpose of discussing the assumptions for the 2022 formal valuation and setting out our recommendations. It has not been prepared for any other purpose and should not be used for any other purpose.

The Administering Authority is the only user of this advice. Neither we nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing. The advice or any part of it must not be disclosed or released in any medium to any other third party without our prior written consent. In circumstances where disclosure is permitted, the advice may only be released or otherwise disclosed in its entirety fully disclosing the basis upon which it has been produced (including any and all limitations, caveats or qualifications).

The assumptions in this document are for the Fund's ongoing employers. Different assumptions may be used for some employers (e.g. more prudent assumed investment return or more prudent longevity improvements assumptions) in particular circumstances. If required, these will be discussed and agreed as part of the 2022 valuation process and will be set out in the Funding Strategy Statement.

The following Technical Actuarial Standards are applicable in relation to this advice, and have been complied with where material and to a proportionate degree:
TAS100; and
TAS300.

APPENDIX 6

Glossary

Term	Explanation
50:50 option	An option for LGPS members to pay half contributions and earn half the retirement benefit (pre-retirement protection benefits are unreduced).
Baseline longevity	The rates of death (by age and sex) in a given group of people based on current observed data.
Club Vita	A firm of longevity experts who Hymans Robertson partner with for longevity analysis. They combine data from thousands of pension schemes and use it to create detailed baseline longevity assumptions at member-level, as well as insight on general longevity trends and future improvements.
Commutation	The option for members to exchange part of their annual pension for a one-off lump sum at retirement. In the LGPS, every £1 of pension exchanged gives the member £12 of lump sum. The amounts that members commute is heavily influenced by tax rules which set an upper limit on how much lump sum can be taken tax-free.
CPI inflation	The annual rate of change of the Consumer Prices Index (CPI). The CPI is the UK government's preferred measure of inflation and is the measure used to increase LGPS (and all other public sector pension scheme) benefits each year.
Demographic assumptions	Assumptions concerned with member and employer choices rather than macroeconomic or financial factors. E.g. retirement age, promotional salary scales etc. Demographic assumptions typically determine the timing of benefit payments.
Discount rate	A number used to place a single value on a stream of future payments, allowing for expected future investment returns. At the valuation the discount rate is used to calculate the value of remaining benefit payments at the end of a given time horizon (e.g. 20 years). It is expressed as a prudent margin above the risk-free rate.
ESS	Economic Scenario Service - Hymans Robertson's proprietary economic scenario generator used to create thousands of simulations of future inflation, asset class returns, interest rates etc

APPENDIX 6

Glossary

Term	Explanation
Inflation	The term for that prices in general tend to increase over time. It can be measured in different ways, with different measures using a different "basket" of goods and using different mathematical formulae.
Liability/ies	An employer's liability value is the single value at a given point in time of all the benefit payments expected to be made in future to all members connected to that employer. The benefit payments are projected using demographic and financial assumptions and the liability is calculated using a discount rate.
Longevity improvements	An assumption about how rates of death will change in future. Typically we assume that death rates will fall and life expectancies will improve over time, continuing the long-running trend.
Prudence	To be prudent means to err on the side of caution in the overall set of assumptions. We build prudence into the choice of discount rate by choosing an assumption with a Prudence Level of more than 50%. All other assumptions aim to be best estimate.
Prudence Level	A percentage indicating the likelihood that a given discount rate assumption will be achieved in practice, based on the ESS model. The higher the Prudence Level, the more prudent the discount rate is.
RPI inflation	The annual rate of change of the Retail Prices Index. RPI is no longer linked to any LGPS benefits. It still has many legacy uses, notably to determine the payments to holders of index-linked government bonds.
Time horizon (or Horizon)	The period over which we require each employer in the Fund to reach full funding. The Time Horizon is typically long (up to 20 years) for employers who we expect to be in the Fund for the long-term (e.g. local authorities and academy schools) and shorter for employers who are expected to leave (e.g. contractors or employers who don't admit new staff to the LGPS).
Withdrawal	Refers to members leaving the scheme before retirement. These members retain an entitlement to an LGPS pension when they retire, but are no longer earning new benefits.

2022 Valuation Plan

30 May 2022

The below table details the main tasks/timescales for the 2022 valuation workstream for the London Borough of Barnet Pension Fund

Activity	Details / Deadline	Status
Valuation training sessions for Committee/Board	To be considered following council elections and committee/board changes	TBC
Valuation training sessions *for Officers*	Can be arranged on request	TBC
Provide cashflow data *for 2019/20 and 2020/21*		✓
Provide cashflow data *for 2021/22*	Data expected by **31 May 2022**	In hand
Assumptions advice	Advice will be provided at end May 2022 for discussion with officers on 7 June 2022 prior to seeking agreement from Committee on 11 July	✓
Officer meeting (assumptions)	**7 June 2022** (MS Teams)	
Provision of completed **Employer Database**	Expected by **31 May 2022**	In hand
Membership data cleanse	Initial extract to be uploaded to data portal by **31 May 2022** Hymans supporting Mark at LB Barnet as appropriate Meeting to discuss data checking parameters on **15 June 2022**	In hand
Committee meeting	**11 July 2022** (Valuation assumptions - in person - Gemma to attend)	Discuss at 7 June meeting with officers
Provision, validation and sign-off of **valuation membership data**	Clean data expected by **29 July 2022**	In hand
Funding Strategy Statement (FSS) *provide draft*	**31 July 2022**	In hand
Whole fund valuation results	**2 September 2022** *(based on clean data being received by 29 July 2022)* *Exact date to be confirmed when timescales for data provision confirmed*	
Officer meeting (whole fund results)	**w/c 5th September (date TBC)**	
Council rates discussed and agreed	**16 September 2022** *(comPASS modelling scope to be agreed)*	
Approve draft FSS with fund officers *for employer consultation*	**23 September 2022**	
Committee meeting	**(LATE) September 2022 TBC** (whole fund results and council contribution rates)	TBC
Provision of initial employer results *to officers*	**21 October 2022**	
Officer meeting (employer results)	**w/c 24th October (date TBC)**	
Agree employer results *with officers*	**28 October 2022**	
FSS released for consultation *to employers*	**7 November 2022**	
Share employer results and proposed contributions	**7 November 2022**	
Employer forum *to discuss results (if required)*	If required - dates to be agreed **(November / December 2022)**	
Committee meeting	**10 November 2022** (Employer results and FSS consultation)	
Discussions with employers with complex circumstances (if required)	**November 2022 - January 2023**	
Committee agree final valuation report and certified rates	**March 2023**	
Committee sign off final FSS	**March 2023**	

KEY
Training
Data / assumptions
Calculations / Results
Documentation
Meetings (Ctee)
Meetings (Officers)

This page is intentionally left blank

Pension Fund Committee

11 July 2022

Title	**Knowledge and Understanding**
Report of	Executive Director of Strategy and Resources (S151 officer)
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	None
Officer Contact Details	David Spreckley, Head of Pensions and Treasury, david.spreckley@barnet.gov.uk

Summary

The Pension Fund Committee is a decision-making body responsible for the operation of the Pension Fund. It is a priority to ensure that the Pension Fund Committee members have access to sufficient training opportunities so that they can meet their duties.

Officers Recommendations

The Pension Fund Committee is invited to note the training options available

The Pension Fund Committee are invited to:

1) collectively commit to undertake the mandatory training; and
2) endeavour to undertake the recommended training.

1.1 The London Borough of Barnet Pension Fund is governed by the Pension Fund Committee, scrutinized by the Local Pensions Board with support of Officers, advisors and outsourced administrators.

1.2 The Pension Fund Committee is a decision making body responsible for the operation of the Pension Fund, ensuring it is governed and administered effectively and is financially sustainable.

1.3 The Local Pension Board is an oversight body with no direct decision making powers. The Local Pension Board's primary role is to review decisions made by the Pensions Committee and hold the Committee to account. The Local Pension Board includes member and employer representation.

1.4 The Local Pensions Board has a regulatory duty to keep their knowledge and understanding up-to-date and to document their training. There is no direct Regulatory requirement for the Pensions Fund Committee to undertake training beyond what is required as an elected member.

1.5 Issues surrounding the Pension Fund are complex and financially significant to the Council. To make effective decisions it is important that Committee members feel empowered to ask the right questions of Officers and advisors.

1.6 It is a priority that the Pension Fund Committee members have access to sufficient training opportunities so that they can meet their duties.

1.7 To deliver on this priority we have identified 'mandatory' training – this is training that we expect Pension Fund Committee members to undertake to enable them to perform their duties (note that this is not Regulatory requirement) and 'recommended' training, which will further develop Committee members' skills.

1.8 The mandatory and primary training opportunities available to Committee members are summarised in the table below:

Training Opportunity	Description	Approx. hours	PFC	LPB
The Pensions Regulator Trustee tool kit	Web based modular training programme with 7x 30-minute modules focused on governance	3.5	Recommended	Mandatory

Training Opportunity	Description	Approx. hours	PFC	LPB
Hymans' training portal	Web based training programme with 6 modules covering all aspects of operating an LGPS Fund	c10	Mandatory (within first 6-months of appointment)	Recommended (within first 6-months of appointment)
CIPFA	Day sessions developed and provided by CIPFA on various governance and topical issues	10 p.a.	Recommended	Recommended
Sustainability Training Day	Dedicated workshop / training day focusing on sustainability with a view to developing the Fund's Responsible Investment Policy	5	Mandatory	N/A
Ad-hoc training sessions held before or during committee meetings	Topical issues – Committee / Officers to make suggestions	4 p.a.	Mandatory	N/A (LPB will also receive training
Private Reading / research	Reading papers / attending workshops and seminars as suggested by Officers and other members of the Committee	0.25 p.w. (c10 p.a.)	Recommended	Recommended
Total (First 12-months)			**19 hours Mandatory** **23.5 hours Recommended**	**3.5 hours Mandatory** **30 hours Recommended**

1.9 The Pension Fund Committee are invited to note the training options available, agree how training will be recorded and collectively commit to undertake the primary training and endeavour to undertake the recommended training.

1.10 Training requirements will be reviewed annually.

2. REASONS FOR RECOMMENDATIONS

2.1 Issues surrounding the Pension Fund are complex and financially significant to the Council. To make effective decisions it is important that Committee members feel empowered to ask the right questions of Officers and advisors.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None necessary for this report.

4. POST DECISION IMPLEMENTATION

4.1 Officers will establish a Trustee Training log for Committee members that will be considered at each Committee meeting.

4.2 Training requirements will be reviewed annually.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 Good knowledge and understanding of the Pension Fund will improve overall governance and operational effectiveness of the Pension Fund.

5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 Provision of Hymans' LOLA portal has a modest annual license fee.

5.3 Social Value

5.3.1 The Public Services (Social Value) Act 2012 came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits.

5.3.2 Before they start the procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders.

5.3.3 The Act is a tool to help commissioners get more value for money out of procurement. It also encourages commissioners to talk to their local provider market or community to design better services, often finding new and innovative solutions to difficult problems.

5.3.4 There are no specific social value issues arising out of this report, however membership of the Pension Fund ensures the long-term financial health of contributing employees on retirement.

5.4 Legal and Constitutional References

5.4.1 There are no legal references.

5.4.2 The Council's Constitution – Article 7 – includes within the responsibilities of the Pension Fund Committee the appointment of various service providers. Monitoring is an essential element of the appointment and re-appointment process.

5.5 **Risk Management**

5.5.1 Risk management is central to the LGPS; which are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

5.5.2 The Committee relies on its service providers and good performance from these will help to avoid problems.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to the public-sector equality duty.

5.7 **Corporate Parenting**

5.7.1 Not applicable in the context of this report.

5.8 **Consultation and Engagement**

5.8.1 Not applicable.

5.9 **Insight**

5.9.1 Not applicable

6. ENVIRONMENT CONSIDERATIONS

6.1 None

7. BACKGROUND PAPERS

7.1 None.

This page is intentionally left blank

AGENDA ITEM 11

Pension Fund Committee

11 July 2022

Title	**Developing the Fund's Responsible Investment strategy**
Report of	Executive Director of Resources (S151 officer)
Wards	N/A
Status	Public, with exempt appendix.
Urgent	No
Key	No
Enclosures	Appendix A – tCO2 emissions from the Pension Fund's listed equity investments Appendix B – Hymans paper around emissions and ESG performance **(exempt)** **Exempt enclosures - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of any particular person (including the authority holding that information).**
Officer Contact Details	David Spreckley, Head of Pensions and Treasury 020 8359 6264

Summary

This report provides the Pension Fund Committee with an update on matters relating to Responsible Investing ("RI") with a view to further progressing the Fund's strategy in this area.

Specifically, this report covers:

- A high-level background of actions taken to date in relation to RI
- The wider Regulatory environment and action taken by other LGPS Funds
- An initial summary of the Carbon Baseline of the Fund and general ESG performance
- Suggested Next Steps to facilitate the development of the Fund's RI policies generally and, in particular, to set a pathway to Net Zero

Officer Recommendations
The Pension Fund Committee is requested to agree (1) a dedicated training session and workshop to be held in the autumn with the purpose of establishing a Net Zero strategy, and (2) to review the RAFI fund against possible low emission alternatives.

WHY THIS REPORT IS NEEDED

1.1 Setting metrics and targets around climate change has gained momentum within the LGPS community with around a quarter of funds now declaring a Net Zero target (as of March 2022).

1.2 In addition, the Council has recently declared a "Climate Emergency" and has brought forward its aspirational target date to make Barnet "Net Zero" as a place (from 2050 to 2042).

1.3 The Council has done substantial work to understand its Carbon Footprint at an operational level and is developing its strategy to reduce its Carbon Footprint over time.

1.4 To support the development of the Pension Fund Committee's sustainability strategy this paper summarises:

- the steps the Pension Fund Committee has taken to date around Responsible Investment ("RI");
- sets out the regulatory framework and what other LGPS funds are doing;
- provides an estimate of the Fund's total Carbon emissions in metric tonnes (referred to as units of tCO2) for its listed investments; and
- sets out possible next steps to develop its RI strategy, including setting a target for the Fund to reach Net Zero.

Summary of steps taken to develop a Responsible Investment strategy

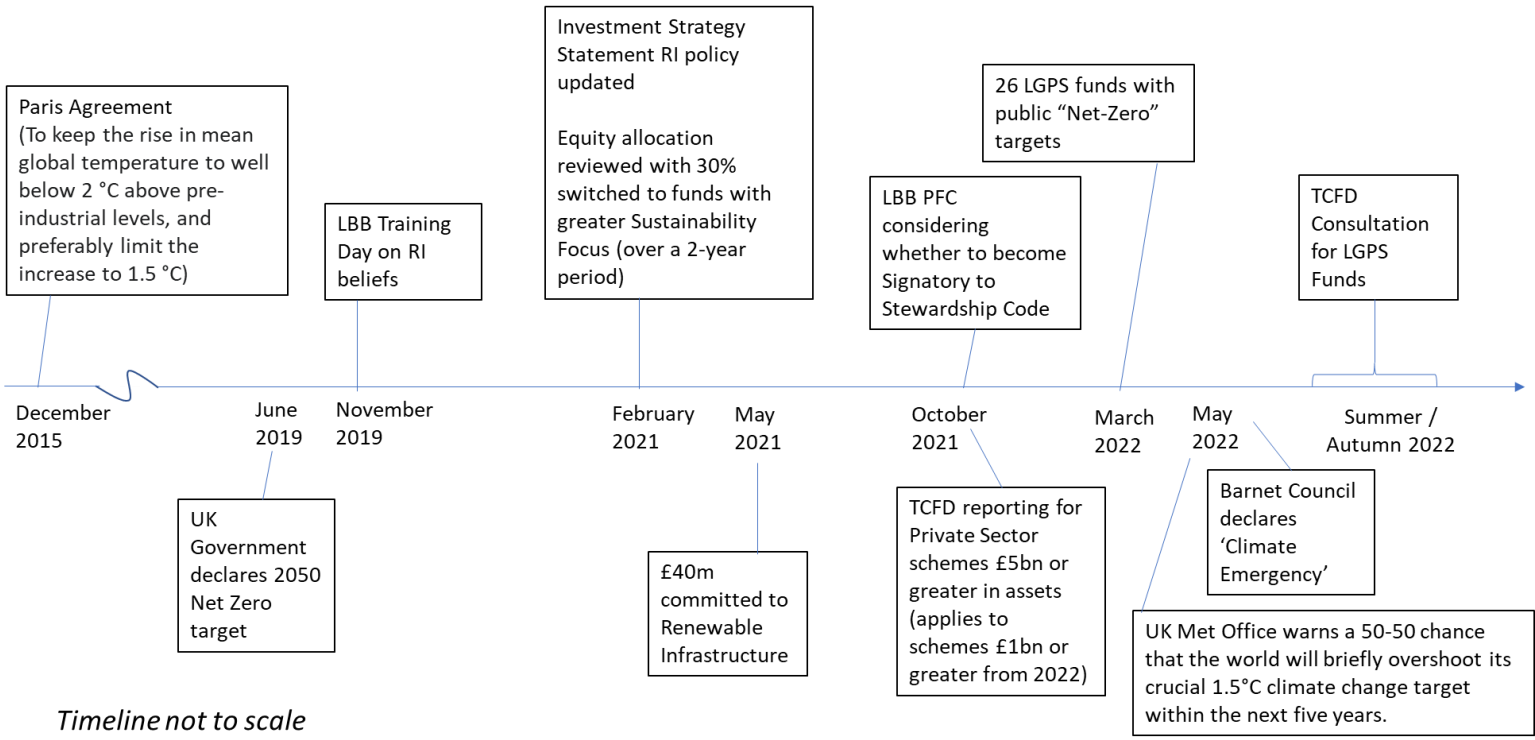
1.5 The Pension Fund Committee started to develop its RI strategy in earnest in November 2019 following a full day's training on sustainability issues. The key milestones met since that session were to:

1.5.1 Make more explicit reference towards RI within the Fund's Investment Strategy Statement (finalised in October 2021)
1.5.2 To rework the Fund's listed equity allocation to have a higher focus on sustainability (February 2021)
1.5.3 To commit £40m to a dedicated LCIV Sustainable Infrastructure Fund (May 2021)

1.6 This work has been against a background of increased focus on sustainability of investment capital in general and of targeting a 'Net Zero' position specifically. The timeline below illustrates some of the key milestones for the Barnet Pension Fund. Of note is an expected requirement for LGPS funds to

report extensively on its CO2 emissions and climate risk through Task-force for Climate related Financial Disclosure ("TCFD") reporting.

High-level timeline of actions taken towards developing a Responsible Investment strategy:

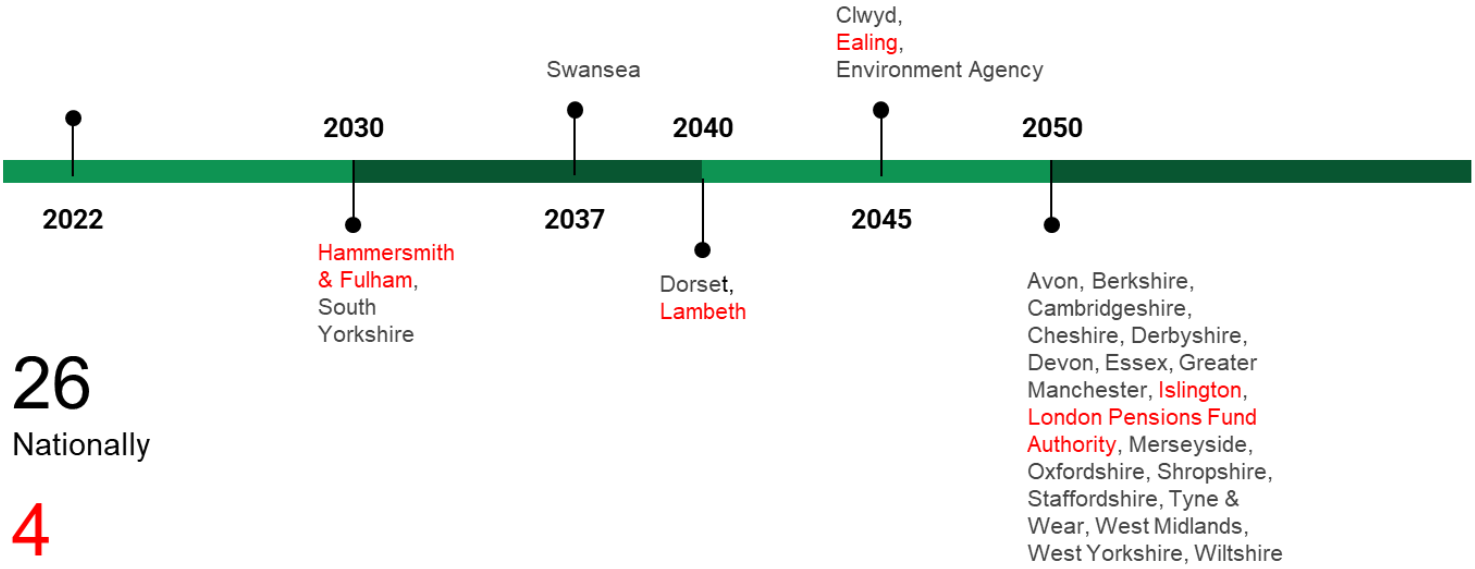


Timeline not to scale

1.7 In March 2022 the LGPSplus.com reported on LGPS Funds that had declared an aspirational Net Zero target. The findings of this report are illustrated below (26 Funds nationally, with four based in London)

1.8 In addition, the London Collective Investment Vehicle (London CIV) has a target for its funds to be Net Zero by 2040.

LGPS Funds with Net Zero targets



26
Nationally

4
London Boroughs

Source: LGPSplus.com

The Pension Fund's Carbon Baseline

1.6 To support the Pension Fund Committee with the development of its RI strategy, the Pensions Team commissioned Hymans Robertson to collate the Fund's emissions from its listed investments holdings. The Pension Team have restricted this exercise to listed investments as the availability of data from non-listed investments is limited.

1.7 A key observation from the Hymans report is that the Fund's listed equity RAFI allocation contributes significantly to the overall emissions generated by the Fund - RAFI has an ultimate target of around 22% of the Fund's listed equity allocation, but is projected to contribute towards around 70% of the Fund's listed equity tCO2 emissions – i.e. RAFI contributes around 3x the level of Carbon emissions relative to its allocation.

1.8 The Pension Fund Committee are already aware that RAFI is likely to produce relatively high Carbon Emissions as this was a key driver to reduce the RAFI allocation from 20% of Fund assets to 10% of Fund assets.

1.9 It should also be noted that the RAFI fund provides important diversification benefits and has performed relatively well over the 12-moths to 31 March 2022 (11.6% p.a. relative to an overall Fund return of 7.4% p.a.) – this is likely to be, in some part, due to its higher relative weighting to value based stocks, which have performed well over recent months.

1.10 If the Pension Fund Committee has an objective of reducing the carbon emissions from its investments, then reviewing the RAFI allocation would be a relatively straightforward first step.

How does the Pension Fund emissions relate to the Council's emissions?

1.11 On a Scope 1 and Scope 2 measure, and as an order of magnitude as the data is very limited, the Pension Fund investments are likely to generate around 5x – 10x the emissions that are generated directly by the Council. However, it should be noted that reducing the Council's carbon footprint has a real world impact, but reducing the Pension Fund's emissions through divestment arguably does not have a real world impact on carbon emissions.

1.12 Appendix C provides a summary of the key statistics of Carbon emissions from the Fund's listed investments collated from the Hymans report. Hymans' report is included as Appendix D.

Broader considerations in setting a Net Zero target

1.13 The market in "climate friendly" funds has expanded significantly in recent years and, in theory, it could be possible for the Fund to switch to a Net Zero target over a relatively short time frame (say 2 to 3 years). However, there are many considerations that need to be borne in mind which means a longer time frame is likely to be needed in practice.

1.14 The table below summarises some of the key considerations that the Pensions Fund Committee will need to take before setting its Net Zero strategy:

Consideration	Comment
Fiduciary Responsibility	As the body responsible for the investment of Pension Fund money, the Pension Fund Committee has a Fiduciary Responsibility to act with due care. The primary objective of the Committee is to ensure that sufficient return is generated from the investments given an acceptable degree of risk. Any strategy around sustainability needs to bear this in mind and carefully consider the impact on return and risk from any decisions made. Carefully considering climate change impacts may help reduce overall investment risk. An issue at present is that the market for 'climate friendly' funds is relatively narrow meaning that important diversification benefits can be lost if the focus on sustainability is too high. If the Pension Fund assets underperform there could be a knock-on impact due to increases in contribution rates

Consideration	Comment
	on the ability of the Council to deliver essential services and meet its own goals around sustainability.
Pace of change	Whilst a high proportion of the Fund's investments are very liquid (i.e. can be sold quickly and easily without impacting the realisable value), a relatively high proportion of assets are not liquid. This places a natural restriction on how quickly the portfolio can be changed. Understanding the maturity profile of the current portfolio will be a key part of any transition to a low carbon portfolio. We currently estimate that around 20% - 40% of the Fund's assets have a maturity profile of 3 years or longer. We are working with Hymans to establish a more refined picture of when assets can realistically be liquidated. In addition, the market for 'sustainable' options in certain asset classes is limited and ignoring those asset classes could mean important diversification benefits are lost.
Engagement vs. divestment	Some investors have taken a policy of divesting from certain sectors (e.g. Fossil Fuel or Tobacco industries). Notwithstanding any Fiduciary considerations, a factor here is whether diverting capital from companies actually does incentivise particular behaviours. This is because the ultimate pool of capital is incredibly deep and so action from a relatively small number of investors does not necessarily influence asset prices significantly. By divesting an investor may simply transfers assets to other owners who may not have the same objectives around sustainability. In addition, companies that appear to deliver high emissions today may be developing technologies that will help society to reduce emissions in the future, therefore any divestment policy needs to be carefully considered against a clear set of objectives, including the potential impact of divesting and what steps could be taken to increase engagement and encourage good behaviours.
Physical Risk	Climate change creates potential physical risks to invested assets in terms of the impact of severe or changed weather on the services or product development

Consideration	Comment
	that a particular company delivers. This might be at a sector level or a geographical level. Understanding how a portfolio is potentially impacted by physical risks is a key part to any sustainability strategy.
Climate Solutions	Supporting ventures or companies that are seeking to develop climate solutions could deliver wider benefits to Society broader than the return on capital invested. Having an explicit allocation to climate solution funds is a positive way a pension fund can contribute to managing climate change, however, the investment risks from such investments would need to be understood.
Pooling	The London CIV has an objective to become Net Zero by 2040. Any policy developed by the Pension Fund Committee needs to consider what LCIV is seeking to achieve and able to deliver.
Macro picture	Investment markets have experienced a substantial period of low inflation, supportive Monetary Policy towards maintaining capital values, e.g. through Quantitative Easing, and a high degree of global connectively. This environment around investment markets may be changing, which may trigger a broader review of investment strategy and may also increase overall investment risk. In addition, the liability profile of the Pension Fund is maturing, with the possibility that the Fund becomes cash flow negative over the next few years, which may further cause a refresh of the underlying strategic allocation. These factors need to be borne in mind when considering and developing the Fund's Responsible Investment strategy.

Consideration	Comment
Engagement	Any policies in relation to the Pension Fund impacts a number of stakeholders. The three key groups of stakeholders (other than the Local Authority) are: 1) Other Pension Fund employers (e.g. Middlesex University and Barnet & Southgate College) 2) Barnet Council Tax payers (who ultimately underwrite the Pension Scheme) 3) Pension Fund members Given the importance of the subject and its increasing high profile with the General Public, the Pension Fund Committee should consider how it engages with stakeholder groups.
Disclosure	The DLUHC is expected to launch a consultation on Disclosure Requirements relating to climate change for LGPS funds later this year (TCFD reporting). Whilst this consultation will be focused on disclosure requirements rather than actions, having a formulated policy around climate change will help support any disclosures made.
Nature Positive vs. Net Zero and wider ESG considerations	Whilst there is a large focus on achieving a Net Zero position from an emissions perspective, the Pension Fund Committee may also wish to consider how its investments impact the world in a broader way – i.e. the impact on other aspects of natural capital and / or the social impact of any investments made.

Training requirements

1.10 Given the complexity of setting a Net Zero strategy the Pensions Fund Committee will need extensive training on the issues. In addition, whilst aspirations can easily be set, implementing any strategy is likely to be a major undertaking that will need to evolve over time.

1.11 Because establishing a strategy may take time to work through, we recommend that the Pension Fund Committee devotes a day towards training and workshops with the objective of developing its key principles and objectives. This will help expediate the process for developing and implementing any strategy.

Indicative timeframe

1.12 At a high level we believe operating to the following timeframe is likely to be achievable – note that this timeline will need to evolve and be developed:

Period	Action
July – December 2022	- Review listed equity portfolio (RAFI) - Review listed credit portfolio - Training session / workshops with objective of formulating views and setting priorities and principles - Develop aspirational strategy to reach Net Zero - Further develop and refine Stewardship strategy
January – June 2023	- Document principles around Responsible Investment and reporting - Consider approach to non-liquid investments - Wider review of investment strategy (e.g. strategic allocation to asset classes) - Develop implementation plan around transition to Net Zero

Wider Environment, Sustainability and Governance considerations (ESG)

1.13 Hymans' have also considered the Fund's listed investments from a wider ESG perspective – see page 3 of Appendix [X].

1.14 In summary, the Fund's listed investments perform marginally better than the Composite Benchmark. The Pension Fund Committee may wish to discuss with Hymans whether the improvement in ESG scores is significant relative to the increased cost of investing with ESG focused funds and what further steps could be taken to improve the Fund's ESG ratings.

2. REASONS FOR RECOMMENDATIONS

2.2.1 The Council has ambitious plans to meet it responsibilities around sustainability generally and climate change specifically. The Pension Fund is a significant contributor to overall emissions. The recommendations will accelerate the development of the Pension Fund's RI strategy and therefore support the Council in meeting its overall objectives around sustainability and climate change.

3.2.1 In addition, further regulation is expected which will require the Pension Fund to report on certain aspects of climate change and the actions recommended will support the Pensions Committee with complying with those regulations.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1.1 Not applicable.

4. POST DECISION IMPLEMENTATION

4.1.1 Not applicable

5. IMPLICATIONS OF DECISION

5.1.1 Corporate Priorities and Performance

5.1.2 Good management of the Pension Fund, including developing governance around climate change and ESG, will minimise the cost of providing benefits thus enabling funds to be directed to Council priorities.

5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 there are no direct resources issues however changes in the financial performance of the pension fund affects the pension fund deficit reflected in the Authority's accounts and the level of contributions payable by the Council and other employers.

5.3 Social Value

5.3.1 The Public Services (Social Value) Act 2012 came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits.

5.3.2 Before they start the procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders.

5.3.3 The Act is a tool to help commissioners get more value for money out of procurement. It also encourages commissioners to talk to their local provider market or community to design better services, often finding new and innovative solutions to difficult problems.

5.3.4 There are no specific social value issues arising out of this report, however membership of the Pension Fund ensures the long-term financial health of contributing employees on retirement.

5.4 Legal and Constitutional References

5.4.1 The LGPS (Management and Investment of Funds) Regulations 2016 (Regulation 7(7)) requires the Committee to periodically (at least every three years) to review the investment strategy and publish a statement of any revisions made.

5.4.2 The Council's Constitution – Article 7 – includes within the responsibilities of the Pension Fund Committee, (1) the approval of the Investment Strategy Statement (ISS) and (2) the appointment of investment managers. This paper considers factors that will influence the asset allocation set out in the ISS.

5.5 Risk Management

5.5.1 Risk management is central to the LGPS; which are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

5.5.2 Understanding the causes of sources and variabilities of scheme returns informs the management of investment and funding risk.

5.6 Equalities and Diversity

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 3) fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010.

Good governance arrangements will benefit everyone who contributes to the fund.

5.7 Corporate Parenting

5.7.1 Not applicable in the context of this report.

5.8 Consultation and Engagement

5.8.1 Not required, although consultation may ultimately be needed before formalising any specific targets around Net Zero.

5.9 Insight

5.9.1 Not applicable

6. ENVIRONMENTAL IMPACT

6.1 None

7. BACKGROUND PAPERS

7.1 None

tCO2 emission from the Pension Fund's listed equity investments

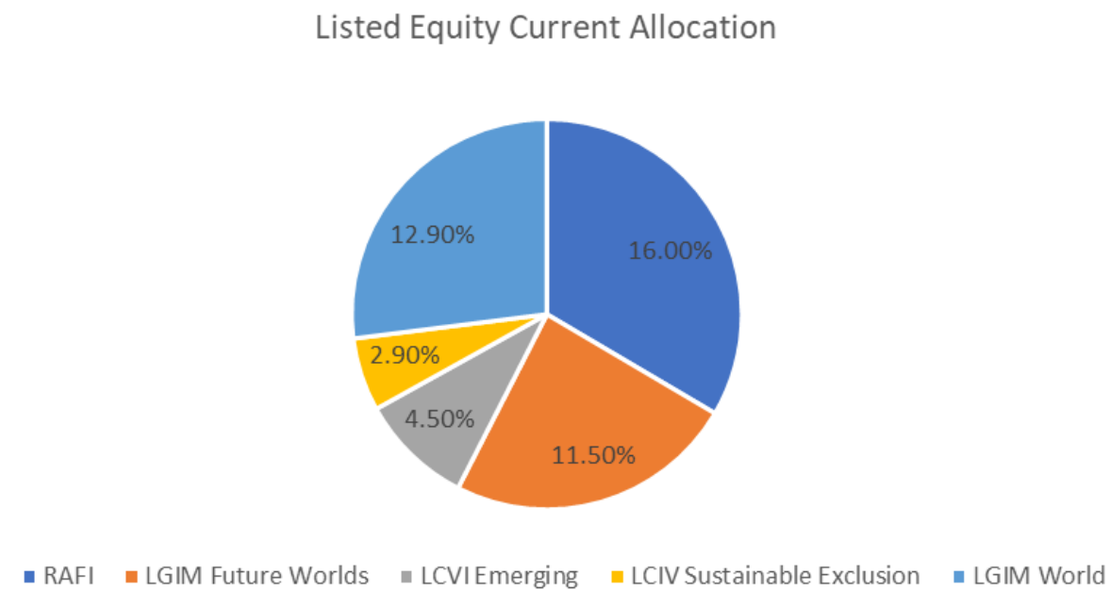
David Spreckley, Head of Pensions and Treasury

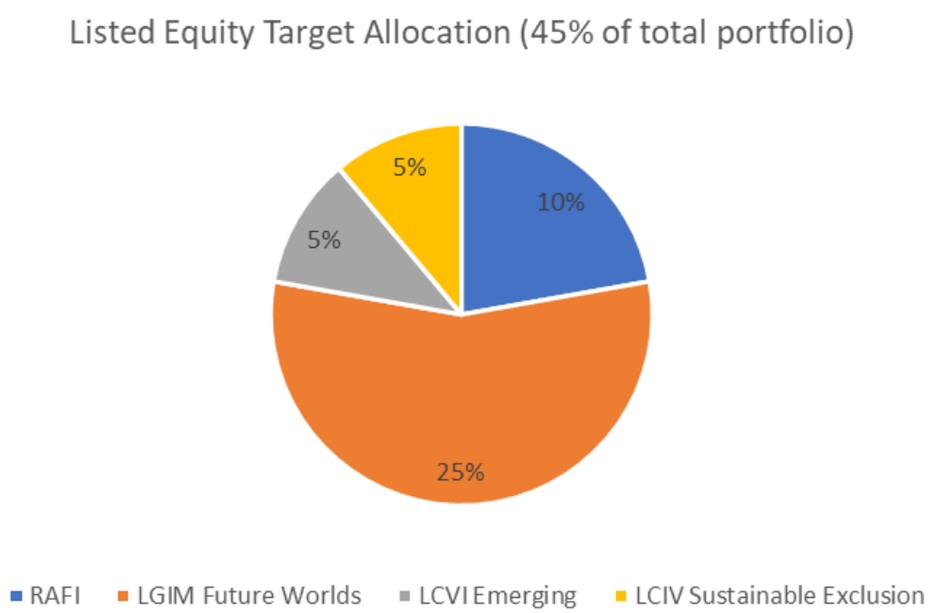
Planned transition of listed equity investments

Listed equities comprise around 45% of the Fund's total assets. As agreed in February 2021, there is a planned transition towards a new listed equity allocation. The target allocation has a more favourable sustainability profile and comprises four funds:

- RAFI (10%)
- Future Worlds (25%)
- LCIV Emerging Markets (5%)
- LCIV Sustainable Exclusion (5%)

The current (at 31 March 2022) and target allocation of listed equities is summarised to the right:





Source: Hymans / LBB analysis

Estimated tCO2 emissions (Scope 1 + 2)

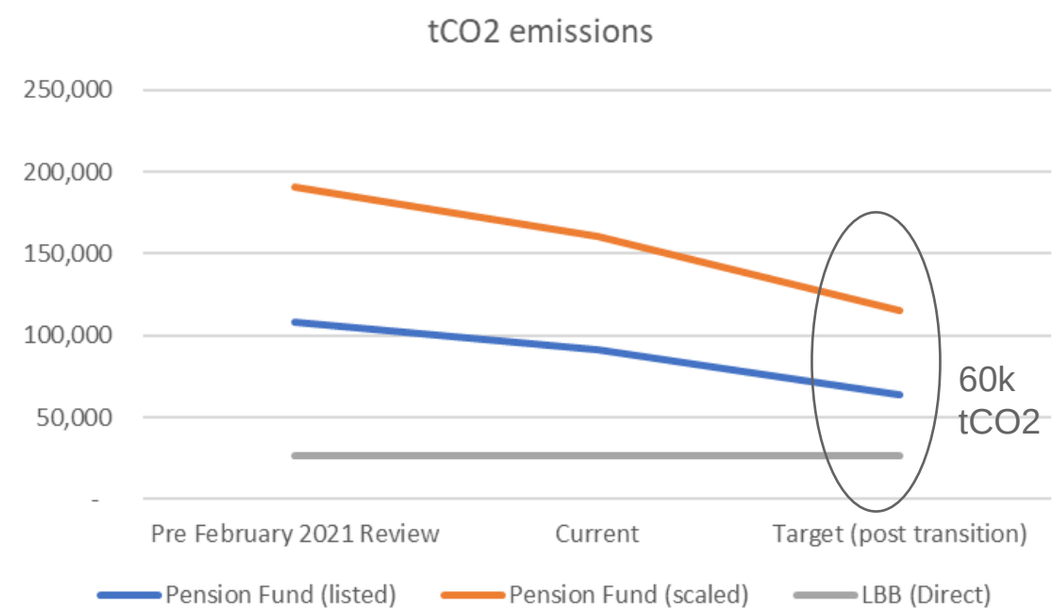
Hymans Robertson have estimated the Fund's total CO2 emissions (tCO2) directly generated by the Fund's listed equities (Scope 1 + 2). This excludes indirect emissions generated by services and products (Scope 3). Scope 3 emissions are notoriously difficult to measure due to lack of data, but are thought to be many multiples of Scope 1 and 2 emissions for some companies.

The Chart to the right summarises the trajectory of the Fund's tCO2 emissions reflecting the change in strategy. The total emissions, once the transition is complete, is around 60k tCO2 – a substantial reduction from the previous allocation that generated in access of 100k tCO2.

We have also estimated the Fund's total emissions assuming that non-listed assets generate the same proportion of emissions as the listed elements (this is very crude analysis and likely to be incorrect) and we have also compared the emissions with LBB's recent baseline figures.

It can be seen, as an order of magnitude, that the Pension Fund is potentially emitting around 5x - 10x the emissions of the Council. However, reducing the Council's emissions has a real impact, whereas, reducing the emissions of the Pension Fund through divestment does not necessarily reduce emissions in the real world.

Source: Hymans / LBB analysis



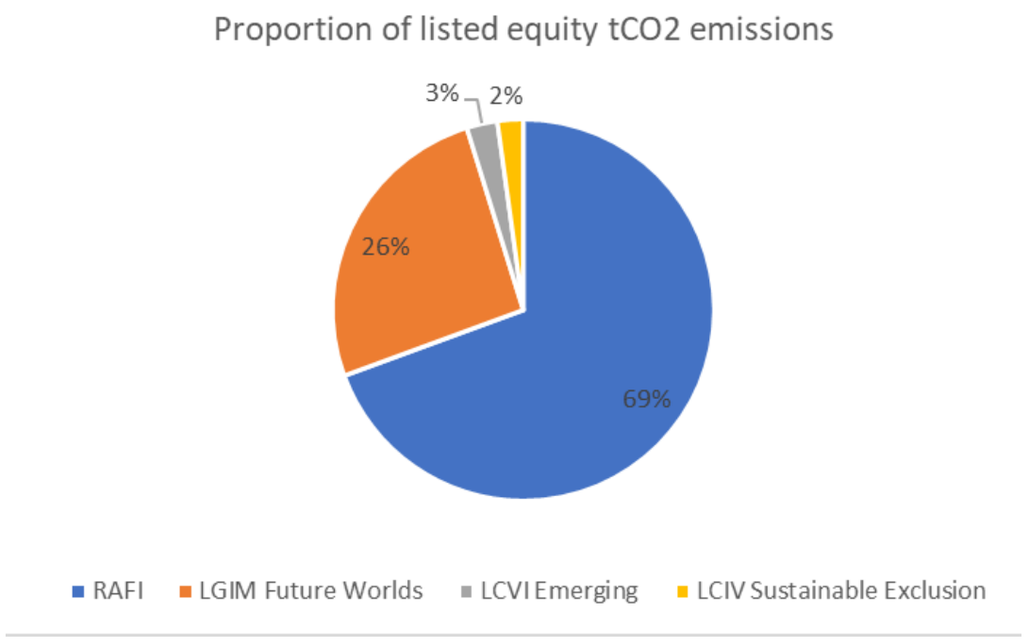
The Fund's emissions are significant relative to emissions generated directly by the Council

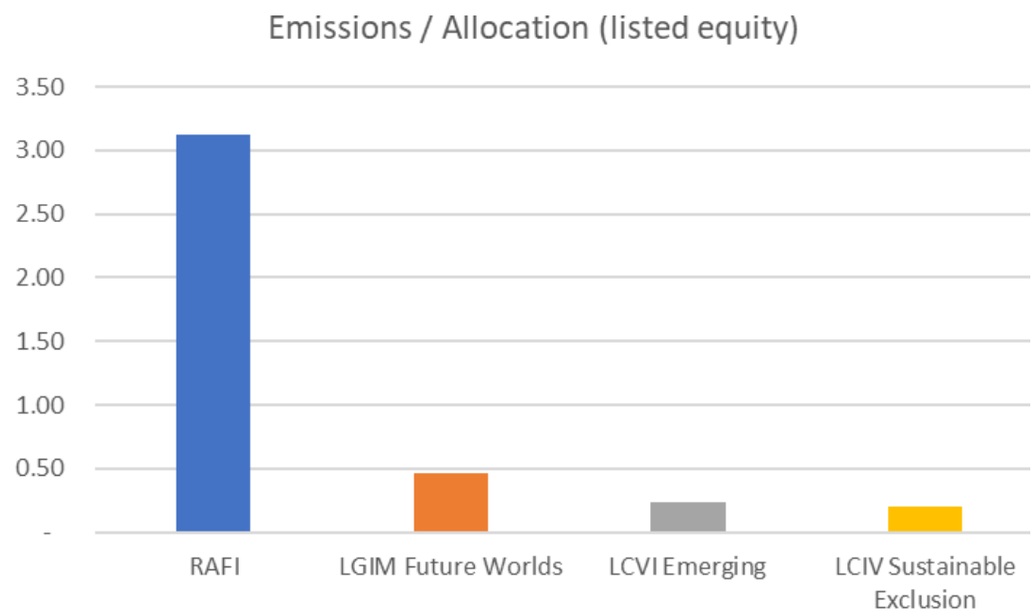
Contribution of tCO2 emissions by RAFI

Due to its quantitative approach to stock selection, the RAFI fund is known to have a bias away from Tech Stocks and towards more traditional sectors. This means the RAFI fund has a higher proportion of its total assets invested in carbon intensive stocks. This was a prime reason why the RAFI target allocation was reduced from 20% of total assets to 10% of total assets.

The target allocation of RAFI is around 22% of total listed equities, however, the Hymans report suggests it contributes around 70% of the listed equity Scope 1 and 2 emissions. Reviewing the RAFI allocation again would therefore be an obvious step against an objective of reducing the Fund's allocation to carbon intensive stocks.

The firm that generate the RAFI index are aware that their index, when viewed through a Carbon Intensity lens, does not look favourable, and so are looking to develop an alternative index which rebalances the allocation based on tCO2 output.

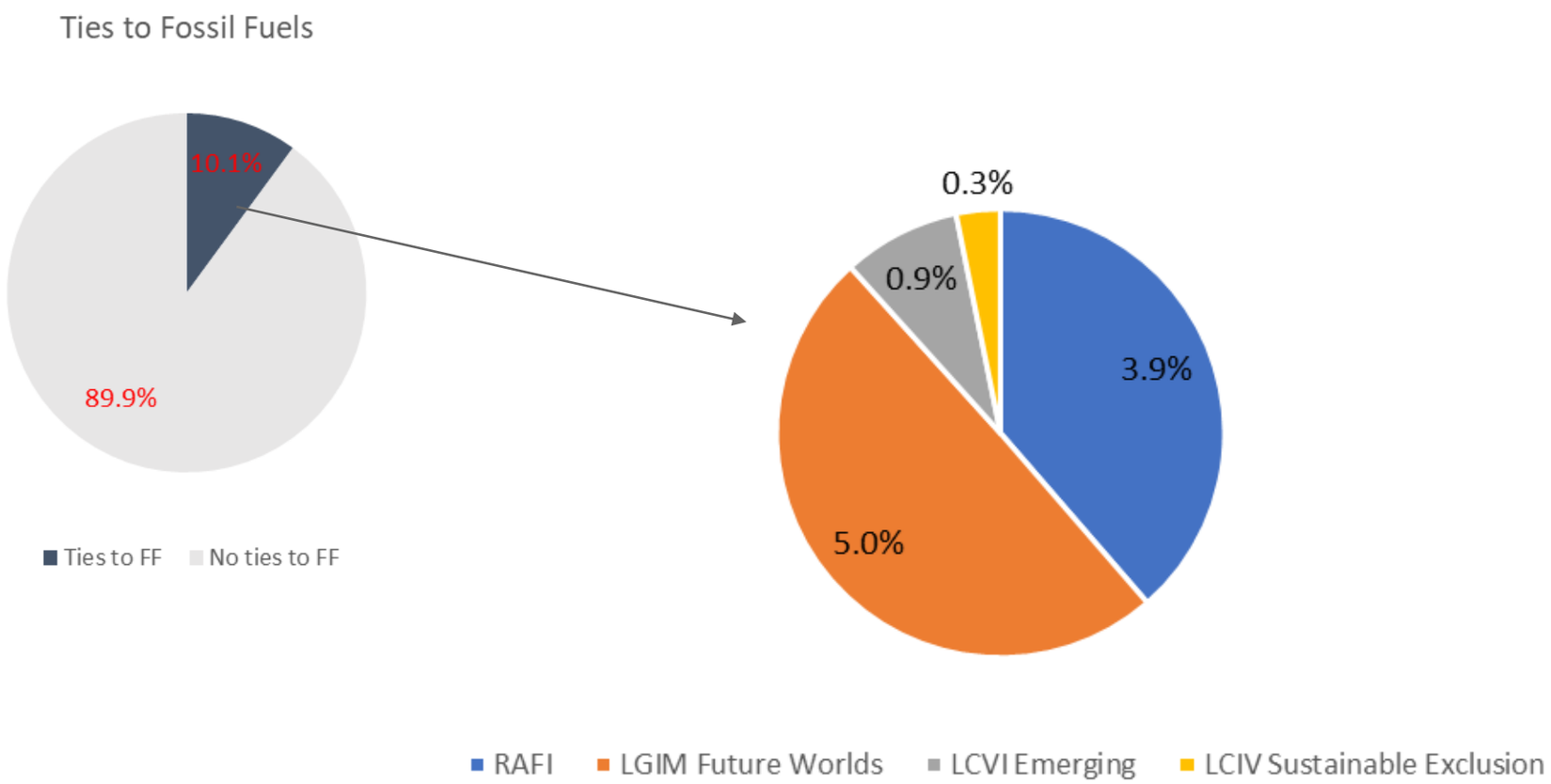




Source: Hymans / LBB analysis

Ties to Fossil Fuel companies

Under the target allocation, around 10% of the Fund's listed equity investments have ties to Fossil Fuel companies. Around 9% of the 10% is generated from the RAFI and Future World funds.



Source: Hymans / LBB analysis

This page is intentionally left blank

AGENDA ITEM 12

Pension Fund Committee

11 July 2022

Title	**Admitted Body and Bond Status Update**
Report of	Executive Director of Strategy & Resources (S151 officer)
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Update on Admission Agreements Appendix B – Update on Cessations Appendix C – Update on Bond renewals
Officer Contact Details	Mark Fox, Pensions Manager 0208 359 3341 mark.fox@barnet.gov.uk

Summary

This report provides the Pension Fund Committee with a status update on the outstanding admitted body and bond agreements, as well as bond renewals and cessation calculations, that need arranging.

The Council has been working with employers, West Yorkshire Pension Fund (WYPF), Hymans Robertson and HB Public Law to ensure outstanding admission and bond agreements are put in place.

Officer Recommendations

That the Pension Fund Committee note the progress on outstanding admitted body and bond agreements, including bond renewals and cessation valuations and that the Pension Fund Committee approve the admission into the Fund of Signature Dining in respect of four contracts at Queens Road Kosher CPU as listed in 1.8.

WHY THIS REPORT IS NEEDED

1.1 The Report is to update the Pensions Fund Committee on the current position in relation to outstanding admissions, cessations and bond renewals.

1.2 Where Admission Agreements, Cessation Valuations or the provision of Bonds are delayed by employers, the LBB Pensions Team will consider using the appropriate action considering the actions permitted in the Pensions Administration Strategy document for the Barnet Fund.

1.3 There is one new admitted body to the Fund.

Admission Agreements

1.4 The employers listed below are seeking to participate in the Local Government Pension Scheme. An update on the progress of completing the Admission Agreements is attached in Appendix A.

	Employer	**Contract Start Date**
1	Atlas Cleaning (Claremont)	19/01/2015
2	Olive Dining (Archer Academy)	01/09/2018
3	Innovate (St James Catholic School)	01/08/2019
4	City & County Healthcare Group (previously MI Homecare)	14/12/2018
5	Olive Dining (St Joseph's Primary)	01/08/2019
6	Sancroft Community Care Ltd	01/06/2019
7	Innovate (Blessed Dominic)	01/09/2019
8	Signature Dining (Pardes House Primary)	01/04/2021
9	Signature Dining (Sacks Morasha)	01/04/2021
10	Signature Dining (Hasmonean Primary)	01/04/2021
11	Tenon (St Michaels School)	01/04/2021
12	Hire-a-Pitch Events (Whitefield Trust School)	01/10/2021
13	Alliance in Partnership (Osidge School)	01/08/2018
14	Signature Dining (Beit Shvidler)	01/09/2021
15	Signature Dining (Hasmonean MAT)	01/09/2021
16	Signature Dining (Etz Chaim)	01/09/2021
17	Signature Dining (Menorah Foundation)	01/09/2021
18	Signature Dining (Queens Road Kosher CPU)	01/09/2021

1.4 There are five Admission Agreements with HB Law for sealing. These should be finalised soon.

1.5 Three Admission Agreements have been signed by the employer but are waiting for the respective schools to sign before they can go for sealing. These are:

Innovate (St James's Catholic School)
Olive Dining (St Joseph's School)
Signature Education (Sacks Morasha School)

Once they are signed and returned by the schools, they will be sent to HB Law for sealing.

1.7 The LBB Pensions Team have set target dates for employers to sign Admission Agreements. If these deadlines are not met, the Pensions Team have advised these employers that they will not be admitted to the Fund and that the members will be advised accordingly. An update will be provided at the meeting on those employers where the deadline will have passed between the date that this report was written and the meeting.

1.8 The Committee are asked to approve the admission of the contract Signature Dining has at Queens Road Kosher CPU.

Cessations

1.9 When the last active member leaves the Local Government Pension Scheme a cessation valuation must be calculated. The Actuary calculates both assets and liabilities in relation to the Employer to understand if there is a surplus or deficit at the end of the contract.

1.10 Progress has again been made in completing cessation valuations for the employers listed below. An update on progress is included in Appendix B.

	Employer	**Contract End Date**	**Surplus/(Deficit)**
1	Absolute Catering (St James' Catholic School)	31/07/2019	-£47,000
2	Freemantle Trust	31/05/2019	£1,453,000
3	Caterlink (Totteridge Academy)	23/02/2020	tbc
4	Ashlyn's (St Andrew's C of E School)	31/07/2020	tbc
5	Hestia	31/03/2021	-£1,000
6	Atlas Cleaning (St Michaels)	31/03/2021	tbc
7	Caterlink (QE Girls School)	31/08/2021	tbc
8	Hartwig	09/07/2021	£71,000

9	Churchill Catering (Queenswell School)	30/11/2021	-£1,000

1.10 Details regarding Fremantle Trust and Hartwig are covered under a separate report.

1.11 For Hestia, the employer paid the deficit on 29 March 2022.

1.12 For Absolute Catering (St James' Catholic School), this employer has since been taken over by another employer and the Pensions Team are working with new employer to arrange payment of the deficit.

1.13 Since the last Committee meeting, Churchill Catering (Queenswell School) has become a new cessation.

1.14 The LBB Pensions Team have set target dates for employers to provide outstanding information so cessation valuations can be completed. If these deadlines are not met, the Pensions Team will advise these employers that they will not be admitted to the Fund and that the members will be advised accordingly. An update will be provided at the meeting on those employers where the deadline will have passed between the date that this report was written and the meeting. The current employers where this action may be applicable are Caterlink (Totteridge Academy) and Ashlyn's (St Andrew's C of E School).

Bonds and Bond Renewals

1.14 The table below sets out the Employers where a renewed bond is required or is being calculated. An update is provided in Appendix C.

	Employer	**Bond required**	**Bond in place**
1	Innovate (St James)	£85,000	No
2	Olive Dining (Archer Academy)	£25,000	No
3	Caterlink (Compton School)	£85,000	No
4	Innovate (Blessed Dominic)	tbc	No
5	Signature Education (Pardes House Primary)	£31,000	No
6	Signature Education (Sacks Morasha)	£43,000	No
7	Signature Education (Hasmonean Primary)	£9,000	No
8	Sancroft Community Care Ltd	£101,000	No
9	Tenon (St Michaels School)	£8,000	No
10	Hire-a-Pitch Events (Whitefield Trust School)	tbc	No
11	Alliance in Partnership (Osidge School)	tbc	No
12	Signature Education (Beit Shvidler)	£4,000	No

13	Signature Education (Hasmonean MAT)	£52,000	No
14	Signature Education (Etz Chaim)	£5,000	No
15	Signature Education (Menorah Foundation)	£11,000	No
16	Signature Dining (Queens Road Kosher CPU)	£207,000	No

1.15 The LBB Pensions Team continue to work with employers for the outstanding bonds and chasing WYPF for the data required by the Actuary to calculate the bond values.

1.16 Where employers do not provide a Bond within the timeframe requested, Officers will request that Hymans recalculate the employer's contribution rate, to cover the non-provision of the indemnity. This policy is detailed in the Contribution Review Policy approved by the Committee at the meeting on 28 October 2021.

1.17 For Innovate (Blessed Dominic School), a letter of guarantee has been provided in place of a Bond. A similar guarantee letter for Innovate's contract at St James School should be received soon.

1.18 For Caterlink (Compton School), the bond agreement is with HB Law for sealing.

1.19 Sancroft Community Care are a wholly owned subsidiary of Harrow Council. The Pensions Team are waiting for a guarantee letter to be sent by Harrow Council

1.20 For the eight Signature Dining contracts, the Pensions Team have agreed that on Bond equal to the value of all their contracts is provided. This will be provided once all the Admission Agreements are signed.

2. REASONS FOR RECOMMENDATIONS

2.1 The Committee should be notified and approve the admittance of new employers who require Admitted Body status in the Fund.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not applicable.

4. POST DECISION IMPLEMENTATION

4.1 Not applicable

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 By monitoring admitted body organisations and ensuring all third parties comply fully with admission agreements and bond requirements, good management of the Pension Fund is maintained. This is because the cost of providing benefits will be equitably split between all employers, thus enabling funds to be directed to Council priorities as set out in the Council's Corporate Plan for 2020-2025.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 There are no immediate financial implications from the report. However, it is important that admitted bodies have their contribution set by the Actuary to ensure that employers can commence membership in the Scheme with an equitable contributions rate and that cessation values are calculated to ensure that any deficits from ceasing employers are paid for.

5.3 Social Value

5.3.1 Membership of the Pension Fund ensures the long term financial health of the contributing employees on retirement.

5.4 Legal and Constitutional References

5.4.1 Regulation 3 and Schedule 2 of the Local Government Pension Scheme Regulations 2013 provide that a Local Authority, as an 'Administering Authority' for the Fund, may admit an organisation into the Local Government Pension Scheme, subject to that organisation, or the contractual arrangement between that organisation and the Council, meeting the criteria set out in the Regulations.

5.4.2. With respect to an admission agreement, the Regulations further provide for an assessment of the level of risk arising on premature termination of the provision of the service or assets because of insolvency, winding up or liquidation of the admission body. The assessment must be with the benefit of actuarial advice and, where the level of risk is such as to require it, the transferee admission body shall obtain an indemnity or bond to meet the level of risk identified.

The Council's Constitution – Article 7 – sets out the responsibilities of the Pension Fund Committee which are to have responsibility for all aspects of the governance, investment and administration of the LB Barnet Pension fund including to approve admissions agreements with any admission body. It is therefore considered appropriate for the Pension Fund Committee to receive this report.

5.5 **Risk Management**

5.5.1 The ongoing viability of the Pension Fund is dependent on acquiring assets that match the pension liabilities. All admitted bodies are subject to actuarial assessments and are reviewed to ensure compliance with admissions agreements and maintenance of appropriate employer contribution levels to mitigate against any risk to the financial viability of the pension fund.

5.5.2 There is a possibility of financial losses to the Pension Fund where arrangements around admitted bodies, bond agreements and contributions are not sufficiently robust. The Council is improving internal controls to ensure the Fund is protected.

5.6 Equalities and Diversity

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 3) fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010.

Good governance arrangements will benefit everyone who contributes to the fund.

5.7 **Corporate Parenting**

5.7.1 Not applicable in the context of this report.

5.8 **Consultation and Engagement**

5.8.1 Not required.

5.9 **Insight**

5.9.1 Not applicable

6. ENVIRONMENTAL IMPACT

6.1 None

7. BACKGROUND PAPERS

7.1 None

This page is intentionally left blank

Update on Admission Agreements – July 2022

	Employer	Contract Start Date	Update	Action Required by?
1	Atlas Cleaning (Claremont)	19/01/2015	Admission Agreement with HB Law to be signed and sealed.	HB Law
2	Olive Dining (Archer Academy)	01/09/2018	Admission Agreement with HB Law to be signed and sealed.	HB Law
3	Innovate (St James Catholic School)	01/08/2019	Admission Agreement has been signed by employer. Waiting for school to sign and return. Deadline is **1 July 2022**.	St James' Catholic School
4	City & County Healthcare Group (previously MI Homecare)	14/12/2018	Admission Agreement ready to be sealed pending information required by HB Law. Deadline is **1 July 2022.**	City & County Healthcare Group
5	Olive Dining (St Joseph's School)	01/08/2019	Admission Agreement has been signed by employer. Waiting for school to sign and return. Deadline is **1 July 2022**.	St Joseph's School
6	Sancroft Community Care Ltd	01/06/2019	Admission Agreement sent to employer for signing. Requested return by **1 July 2022.**	Sancroft Community Care Ltd
7	Innovate (Blessed Dominic)	01/09/2019	Admission Agreement with HB Law to be signed and sealed.	HB Law
8	Signature Dining (Pardes House Primary)	01/04/2021	Admission Agreement with HB Law to be signed and sealed.	HB Law
9	Signature Dining (Sacks Morasha)	01/04/2021	Admission Agreement has been signed by employer. Waiting for school to sign and return. Deadline is **1 July 2022**.	Sacks Morasha School
10	Signature Dining (Hasmonean Primary)	01/04/2021	Admission Agreement with HB Law to be signed and sealed.	HB Law
11	Tenon (St Michaels School)	01/04/2021	Admission Agreement sent to employer for signing. Deadline is **24 July 2022.**	Tenon
12	Hire-a-Pitch Events (Whitefield Trust School)	01/10/2021	Query with employer on whether this is an admission. Pending a response from employer.	Hire-a-Pitch Events
13	Alliance in Partnership (Osidge School)	01/08/2018	Admission Agreement sent to employer for signing. Deadline is **28 July 2022.**	Alliance in Partnership

14	Signature Dining (Beit Shvidler)	01/09/2021	Admission Agreement sent to employer for signing. Deadline is **28 July 2022.**	Signature Dining
15	Signature Dining (Hasmonean MAT)	01/09/2021	Admission Agreement sent to employer for signing. Deadline is **28 July 2022.**	Signature Dining
16	Signature Dining (Etz Chaim)	01/09/2021	Admission Agreement sent to employer for signing. Deadline is **28 July 2022.**	Signature Dining
17	Signature Dining (Menorah Foundation)	01/09/2021	Admission Agreement sent to employer for signing. Deadline is **28 July 2022.**	Signature Dining
18	Signature Dining (Queens Road Kosher CPU)	01/09/2021	Admission Agreement sent to employer for signing. Deadline is **28 July 2022.**	Signature Dining

Update on Cessation Valuations
- July 2022

	Employer	Cessation Date	Surplus/deficit	Update	Action Required by?
1	Absolute Catering (St James' Catholic School)	31/07/2019	-£47,000	Requested cessation payment from employer. Deadline date is **24 July 2022.**	Absolute Catering
2	**Fremantle Trust**	**31/05/2019**	**£1,453,000**	**There is an exempt Appendix discussing the Fremantle Trust surplus.**	**HB Law/LBB**
3	Caterlink (Totteridge Academy)	23/02/2020	n/k	Additional information required from employer. If not received by **1 July 2022**, LBB Pensions Team will contact Employer and advise of non-admission to the Barnet Fund	Caterlink
4	Ashlyn's (St Andrew's C of E School)	31/07/2020	n/k	One to be processed by WYPF. Deadline date is **1 July 2022**. Once completed WYPF can send data to Hymans to calculate cessation valuation.	WYPF
5	**Hestia**	**31/03/2021**	**-£1,000**	**Cessation completed. Deficit paid on 29 March 2022.**	**N/A**
6	Atlas Cleaning (St Michaels)	31/03/2021	n/k	WYPF to submit cessation data to Hymans. Deadline set for **1 July 2022**.	WYPF
7	Caterlink (QE Girls School)	31/08/2021	n/k	WYPF to submit cessation data to Hymans. Deadline set for **1 July 2022**.	WYPF
8	**Hartwig**	**09/07/2021**	**£71,000**	**There is an exempt Appendix discussing the Hartwig surplus.**	**LBB**
9	Churchill Catering (Queenswell School)	30/11/2021	-£1,000	Requested cessation payment from employer. Deadline date is **24 July 2022**.	Churchill Catering

10	Atlas Cleaning (Claremont)	31/03/2022	n/k	WYPF to submit cessation data to Hymans. Deadline set for **7 July 2022**.	WYPF

Update on Bond Renewals – July 2022

	Employer	Current Bond value	Current Bond Expiry date	New Bond required	Update	Action Required by?
1	Innovate (St James School)	n/a	n/a	£81,000	School has agreed to provide guarantee. Pending letter from school. Deadline is **1 July 2022.**	St James School
2	Olive Dining (Archer Academy)	n/a	n/a	£25,000	Employer raised query regarding Bond agreement wording. Responded to by LBB Pensions Team and now waiting for signed document. Deadline is **24 July 2022.**	Olive Dining
3	Caterlink (Compton School)	n/a	n/a	£85,000	Bond Agreement with HB Law to be signed and sealed.	HB Law
4	**Innovate (Blessed Dominic School)**	**n/a**	**n/a**	**£61,000**	**Letter of guarantee has been received**	**N/A**
5	Signature Dining (Pardes House Primary)	n/a	n/a	£31,000	LBB Pensions Team have agreed to wait until all admission agreements are signed for Signature Dining contracts and then they will provide the Bond or guarantee. Deadline is **31 July 2022**.	Signature Dining
6	Signature Dining (Sacks Morasha)	n/a	n/a	£43,000	LBB Pensions Team have agreed to wait until all admission agreements are signed for Signature Dining contracts and then they will	Signature Dining

					provide the Bond or guarantee. Deadline is **31 July 2022**.	
7	Signature Dining (Hasmonean Primary)	n/a	n/a	£9,000	LBB Pensions Team have agreed to wait until all admission agreements are signed for Signature Dining contracts and then they will provide the Bond or guarantee. Deadline is **31 July 2022**.	Signature Dining
8	Sancroft Community Care Ltd	n/a	n/a	£101,000	Employer is a wholly owned subsidiary of Harrow Council. Pending Harrow to provide a letter of guarantee. Deadline is **31 July 2022**.	Harrow Council
9	Tenon (St Michaels School)	n/a	n/a	£8,000	Pending employer to provide a Bond or letter of guarantee. Deadline is **31 July 2022.**	Tenon
10	Hire-a-Pitch Events (Whitefield Trust School)	n/a	n/a	tbc	Query with employer on whether this is an admission. Pending a response from employer.	Hire-a-Pitch
11	Alliance in Partnership (Osidge School)	n/a	n/a	tbc	Pending calculation from Actuary.	Hymans Robertson
12	Signature Dining (Beit Shvidler)	n/a	n/a	£4,000	LBB Pensions Team have agreed to wait until all admission agreements are signed for Signature Dining contracts and then they will provide the Bond or guarantee. Deadline is **31 July 2022**.	Signature Dining
13	Signature Dining (Hasmonean MAT)	n/a	n/a	£52,000	LBB Pensions Team have agreed to wait until all admission agreements are signed for Signature Dining contracts and then they will	Signature Dining

					provide the Bond or guarantee. Deadline is **31 July 2022**.	
14	Signature Dining (Etz Chaim)	n/a	n/a	£5,000	LBB Pensions Team have agreed to wait until all admission agreements are signed for Signature Dining contracts and then they will provide the Bond or guarantee. Deadline is **31 July 2022**.	Signature Dining
15	Signature Dining (Menorah Foundation)	n/a	n/a	£11,000	LBB Pensions Team have agreed to wait until all admission agreements are signed for Signature Dining contracts and then they will provide the Bond or guarantee. Deadline is **31 July 2022**.	Signature Dining
16	Signature Dining (Queens Road Kosher CPU)	n/a	n/a	£207,000	LBB Pensions Team have agreed to wait until all admission agreements are signed for Signature Dining contracts and then they will provide the Bond or guarantee. Deadline is **31 July 2022**.	Signature Dining

This page is intentionally left blank

Pension Fund Committee

11 July 2022

Title	**Barnet Council Pension Fund – Valuation, Transactions and Performance**
Report of	Executive Director of Strategy and Resources
Wards	N/A
Status	Public, with exempt appendix D
Urgent	No
Key	No
Enclosures	Appendix A – Market Value of Investments as of 31 May 2022 Appendix B - Asset Allocation as of 31 May 2022 Appendix C – Review of Investment Managers Performance for 1st quarter, 2022 Appendix D – Review of Fund Managers (Hymans Robertson) **(exempt)** Exempt enclosures - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of any particular person (including the authority holding that information).
Officer Contact Details	David Spreckley, Head of Pensions and Treasury (david.spreckley@barnet.gov.uk)

Summary

This report provides an update on investment valuations, transactions and performance in the 3 months to 31 March 2022 with an updated valuation to 31 May 2022.

Officers Recommendations

That the Pension Fund Committee note the investment activities and performance of the Pension Fund for the quarter to 31 March 2022.

1. WHY THIS REPORT IS NEEDED

1.1 To ensure that the Pension Fund is being invested prudently and in accordance with the Pension Fund investment strategy.

Fund Valuation

1.2 The valuation of the fund declined by £16.4 million in the quarter to 31 March 2022 to £1,502.2 million (31 December 2021 £1,518.6 million) (appendix B). At 31 May 2022 the value has fallen a further £32.1 million to £1,470.1 million

Performance

1.3 Performance over the quarter to 31 March 2022 of -1.9% was 0.5% below benchmark (appendix C). However, the annual return of 7.4% and annualised three years return of 8.9% are respectively 0.7% and 0.3% in excess of the benchmark.

The main drivers of absolute returns continues to be listed and private equities, infrastructure and property. Apart from direct lending, returns from credit mandates have been low single digit.

The annual outperformance over benchmark has been generated by private equity, infrastructure, UK property and corporate bonds. The two new London CIV equity mandates (emerging markets and sustainable equities) have struggled in the last year, underperforming their benchmarks by -3.5% and -5.2% respectively as have most of the credit mandates.

Global equity markets have declined sharply in quarter 2; by 6.5% to 31 May 2022 and a further circa 10% during June in local currencies. The unhedged portion of the portfolio has benefited from sterling weakness. Hymans will provide an update on market conditions at the meeting.

Investment Manager Ratings

1.4 Hymans' manager ratings are included within their quarterly report (appendix D, page 5). All the managers are rated either preferred or positive (the top two ranking) other than three mandates ranked as suitable as highlighted in the report. The LCIV mandates are not rated by Hymans.

1.5 Hymans also award Responsible Investment ratings and all bar one is rated strong or good. The four London CIV mandates not rated. Two funds were uprated from adequate to good in the quarter.

Notable comments in the Hymans quarterly report (appendix D) include:

A change of benchmark (not expected to impact on performance) and a fee reduction for Schroders DGF from 0.5% to 0.43% (appendix D, page 5),

Explanations for the underperformance of the LCIV Emerging Markets and Sustainable Equities mandates are given on pages 6 & 7.

Fund Manager Transactions

1.6 Cash movements into and out of funds are highlighted in appendix B. The fourth phase of the equity reorganisation involved £56 million invested into LGIM Future Worlds was completed in May. Sales were from RAFI (£20 million) and Market Cap equities (£36 million) at LGIM. There are two remaining phases (October 2022 and March 2023) with £112 million due to be invested in Future Worlds and £22 million into LCIV Sustainable Equities. These amounts will require updating to achieve the target weightings of 25% Future Worlds, 10% RAFI and 5% LCIV Sustainable Equities.

An investment of £44 million was made into the Insight Secured Finance Fund II to achieve the target allocation of 6%. This was funded by realisation of the Alcentra Multi-Asset Credit mandate from which £12.991 million was received between Jan & May leaving a balance due of £9.3 million which was received during June. Alcentra have been returning funds when the underlying securities are liquidated.

The holdings in the M&G Lion fund were sold in Quarter 1, realising £31.220 million.

There were drawdowns from LCIV Private Debt (£6.245 million), Adams Street (£2.859 million) and Barings (£1.855 million). Realisations were received from Partners Group (£3.517 million) and Alcentra European Lending (£1.540 million) as these funds continue to wind down. A net realisation was also received from LCIV renewables Infrastructure (£0.767 million) as capital was temporarily returned to allow new investors to join the fund.

During June 2022, the Fiera Property called (£28.2 million) representing most of the £30 million commitment. There was also the first call from Adams Street Secondaries Fund of $5.5 million and a further call of $4.725 million from Adams Street Global Private Equity. As a consequence £20 million will be realised from Schroders Diversified Growth Fund.

<u>LCIV Global Bonds and Multi-Asset Credit</u>

1.7 At the Committee meeting held on 14 December 2021, a decision was made (agenda item 16) to invest in two LCIV funds:

(1) Invest 5% of the Fund with LCIV Global Bonds and reduce the Schroders Corporate Bond Fund to 5%, both equivalent to approximately £75 million but defer implementation until after completion of the LCIV Global Bonds ESG transformation.

(2) Invest 3.5% (Circa £50 million) of the Fund to LCIV Multi-asset Credit using proceeds from the realisation of Alcentra MAC and existing cash balances but defer implementation until after the reorganisation of the LCIV MAC fund.

In both cases the investment was deferred pending ongoing reorganisations of the two funds. In the case of Global Bonds this was to integrate ESG criteria to its investment process, which is aligned with the Committee's responsible investment goals. For Multi-asset credit the reorganisation was to add an

additional manager (PIMCO) to the fund, which was regarded as offering beneficial diversification. Implementation of these decisions was delegated to officers and as the reorganisations will be completed by mid-July 2022 the approved transactions will now be progressed. These transactions will involve disposals from Schroders Corporate Bonds and Diversified Growth Fund holdings.

1.8 Undrawn commitments on 31 May 2022 are summarised in the table below:

	Currency	Commitment	Drawn January to May 2022	Undrawn Commitment 31 May 2022
Adam Street Private Equity	US $	67,500,000	2,987,611	40,262,520
Adam Street Secondary Private Equity	US $	55,000,000	-	55,000,000
LCIV Private Debt	£	60,000,000	6,245,340	34,655,069
LCIV Renewables Infrastructure	£	40,000,000	(767,783)	30,310,808
Barings Special Situation Debt	Euro €	40,000,000	2,188,450	19,811,550
Fiera Real Estate	£	30,000,000	-	30,000,000
Sterling Equivalent	£			**187,446,307**

Allocations v Strategy

1.9 Appendix B highlights the portfolio positions compared with benchmark. The overall equity allocation is close to target although the private equity element is 2.05% underweight. The underweights to property and illiquid alternatives is due to the undrawn commitments detailed in 1.8 above with cash for these currently invested in Schroder's diversified growth funds.

2. REASONS FOR RECOMMENDATIONS

2.1 The terms of reference of the Pension Fund Committee require the Committee to review and challenge the fund managers' quarterly investment performance against benchmarks and targets.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None.

4. POST DECISION IMPLEMENTATION

4.1 The Chief Financial Officer will carry out any actions considered necessary.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage to achieve the required funding level. Effective monitoring of the Pension Fund will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities.

5.2 **Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

5.2.1 The Pension Fund appoints external fund managers to maximise Pension Fund assets in accordance with the Fund investment strategy. The Pension Fund is a long-term investor and short-term volatility of investment return is expected. In the longer term, the appointed fund managers are expected to deliver positive returns in accordance with the Fund benchmarks. The global diversification of the Pension Fund portfolio gives some protection against the market volatility. The funding level of the Scheme uses a valuation of the future liabilities discounted using gilt yields. The mismatch between assets held and the method of valuing future liabilities will also result in volatility of funding levels.

5.3 **Social Value**

5.3.1 Membership of the Pension Fund ensures the long-term financial health of contributing employees on retirement.

5.4 **Legal and Constitutional References**

5.4.1 Constitution – Under article 7 one of the responsibilities of the Pension Fund Committee is 'To review and challenge at least quarterly the performance of the Pension Fund's investments taking into consideration the benchmarks and targets set out in the Investment Strategy Statement and investment management contracts and to consider advice from the investment advisor(s)."

5.4.2 Regulation 9 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 provides the power to appoint investment managers. The regulations no longer have a specific reference to monitoring investment managers but state "the authority must reasonably believe that the investment manager's ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it", Regulation 9(3). Only through periodic monitoring can the Committee achieve this requirement.

5.5 **Risk Management**

5.5.1 A key risk is that of poor investment performance. The performance of the fund managers is monitored by the Pension Fund Committee every quarter with reference to reports from Hymans Robertson, the Pension Fund investment adviser. If a fund manager's performance is considered inadequate, the fund manager can be replaced.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due

regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 3) fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The public sector equality duty requires public authorities in carrying out their functions to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

5.7 **Corporate Parenting**

5.7.1 Not applicable in the context of this report.

5.8 **Consultation and Engagement**

5.8.1 Not applicable

5.9 **Insight**

5.8.1 Not applicable

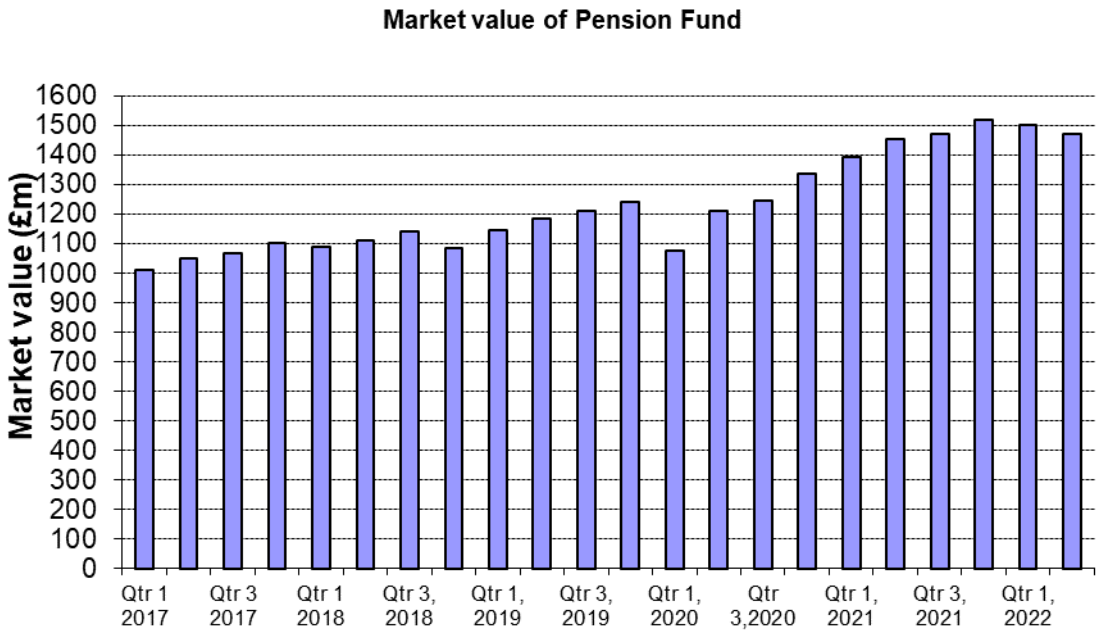
6. ENVIRONMENTAL IMPACT

6.1 Not relevant to this report.

7. BACKGROUND PAPERS

7.1 None

Appendix A – Market Value of Investments as of 31 May 2022



Appendix B - Asset Allocation as of 31 May 2022

	Latest valuation date	31-Dec-21 £'000	Transactions £'000	31-Mar-22 £'000	Transactions £'000	31-May-22 £'000	31-May-22 %	%	Target Allocation %	%
Equities								**49.52%**		**50.00**
LGIM Global		199,100		192,352	-36,000	145,546	9.90%		0.00	
LGIM RAFI		237,808		239,054	-20,000	214,057	14.56%		10.00	
LGIM Future Worlds		180,626		171,948	56,000	219,426	14.93%		25.00	
LCIV Emerging Markets		72,560		68,142		65,248	4.44%		5.00	
LCIV Sustainable Exclusion Equity		47,204		42,946		40,338	2.74%		5.00	
Adams Street Private Equity	Dec-21	32,488	2,859	41,604		43,387	2.95%		5.00	
Property								**4.51%**		**6.00**
Aberdeen Standard Long Lease	Mar-22	32,062		34,234		34,234	2.33%		2.00	
CBRE Global	Mar-22	27,804		30,730		32,047	2.18%		2.00	
Fiera Real Estate Opportunities		0		0		0	0.00%		2.00	
Diversified Growth								**9.92%**		**0.00**
Schroder		151,081		148,264		145,829	9.92%		0.00	
Multi Credit Liquid								**9.38%**		**11.00**
Baring Global High Yield		42,461		40,922		39,050	2.66%		3.50	
Alcentra Multi Credit		22,339	-2,991	19,310	-10,000	9,310	0.63%		3.50	
Insight Secured Finance		46,164	44,000	90,057		89,530	6.09%		4.00	
							0.00%			
Corporate Bonds								**8.62%**		**10.00**
Schroder		141,682		132,630		126,710	8.62%		10.00	
Illiquid Alternatives								**14.14%**		**23.00**
Alcentra European Direct Lending	Mar-22	17,916	-1,540	16,237		16,237	1.10%		1.50	
Partners Group	Apr-22	51,216	-2,582	49,506	-935	49,085	3.34%		5.50	
LCIV Private Debt		19,100	5,314	24,414	931	25,345	1.72%		4.00	
Barings Special Situations Debt	Mar-22	17,447	1,855	19,780		19,999	1.36%		2.00	
M&G Lion Credit Opportunity		31,350	-31,220	0		0	0.00%		2.00	
LCIV Renewables Infrastructure		10,457	610	11,066	-1,377	9,689	0.66%		3.00	
IFM Global Infrastructure		81,382		84,949		87,509	5.95%		5.00	
Cash		56,330	-12,237	44,093	13,438	57,531	3.91%	**3.91%**	0.00	**0.00**
Total		**1,518,577**	**4,068**	**1,502,238**	**2,057**	**1,470,107**	**100%**	**100.00%**	**100.00**	**100.00**

Due to report timings, there will be small valuation differences with Hymans reports
Prior month valuations are adjusted for cash and foreign exchange rate movements
The net cash invested represents the balance of contributions, benefits and income

London Borough of Barnet Pension Fund

Q1 2022 Investment Monitoring Report

Nick Jellema – Senior Investment Consultant
Yoel Deal – Investment Consultant
Kyle Langley – Investment Analyst
Tianna Patel – Investment Analyst

HYMANS ROBERTSON

Executive Summary

Fund assets totalled c.£1,499.0m at the end of Q1 2022, a reduction of c.£20m from the end of the previous quarter.

The Fund's assets returned -1.9% (net of fees) over the quarter, underperforming the benchmark by 0.5%.

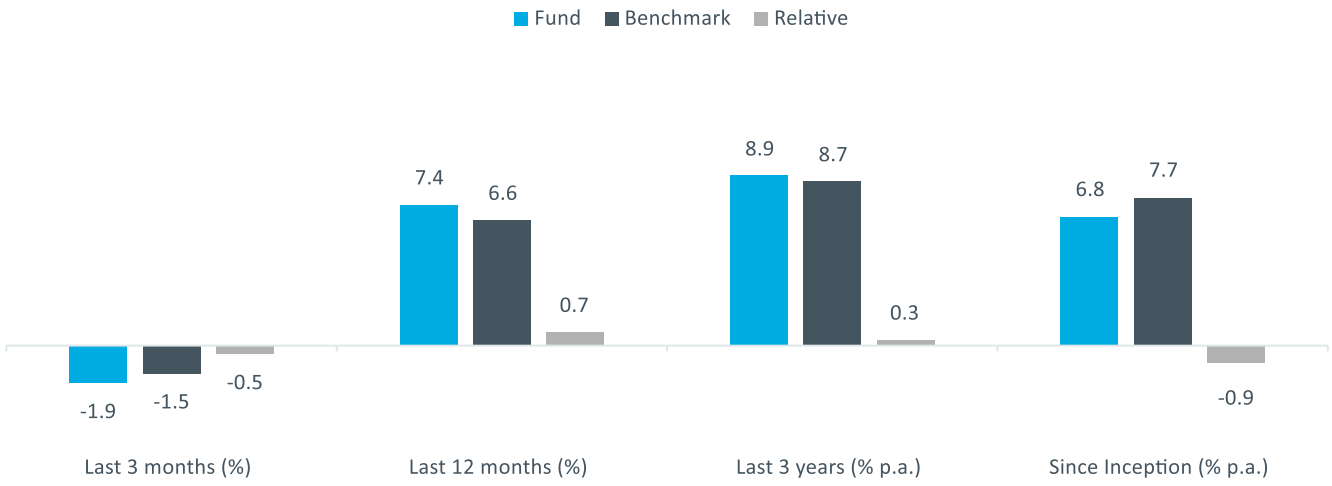
Key Actions

The following transitions took place over the quarter:

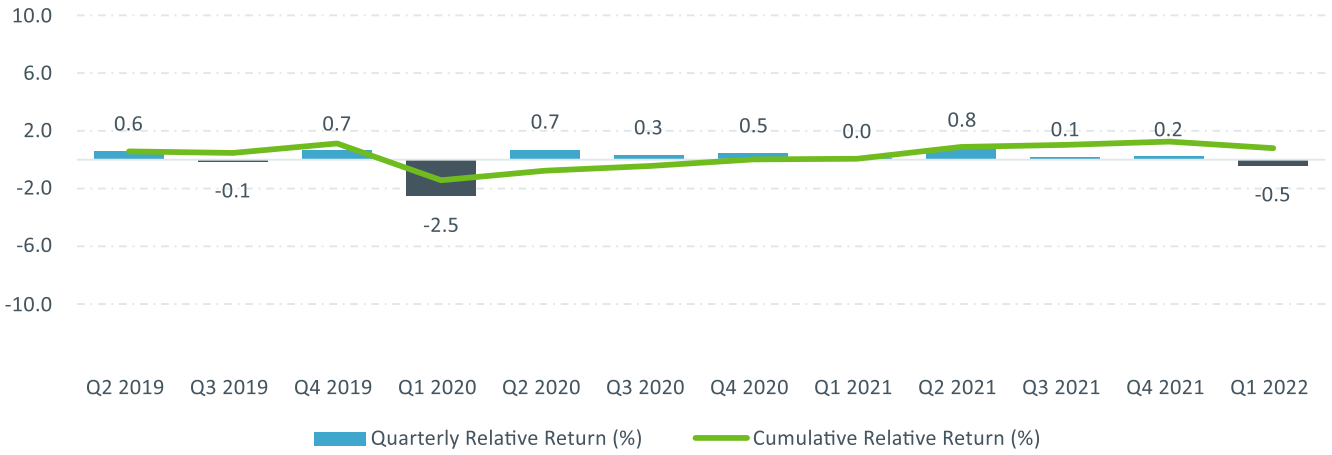
- Full redemption (c.£32m) from the M&G ABS fund, in line with the agreed strategy changes.
- Full redemption of the remaining allocation with Alcentra MAC (c.£19m).
- Investment of c.£44m in the Insight Secured Finance (II) Fund, in line with the agreed strategic changes.

Over the quarter the following funds continued to call capital from the Fund's commitments: Adam Street Global 2019 Fund, LCIV Private Debt, LCIV Renewable Infrastructure and Barings Global Special Situations.

Historic quarterly performance (net of fees)



Relative quarterly and relative cumulative performance 3yr (net of fees)



The Q1 22 valuation for Alcentra Direct Lending, Adams Street Partners, Barings Global Special Situations and CBRE Global Alpha are as at Q4 21, due to a lag applied by the manager. Where applicable the valuations are adjusted for cash movements post quarter end.

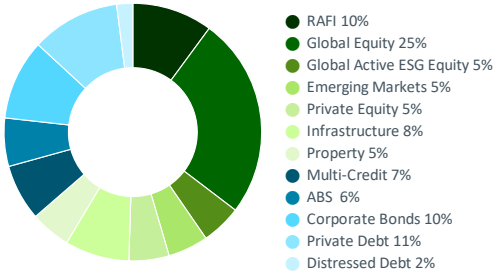
The assets are being transitioned to the new funds, LGIM Future World and LCIV Sustainable Exclusion, in a phased manner. The allocations to those funds will therefore be underweight until the transition is complete in 2022 (and overweight to the LGIM passive market-cap funds).

The allocation chart shows a diverse range of assets invested across Growth and Income mandates.

Asset allocation

Manager	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q4 2021	Q1 2022			
LGIM RAFI Carbon Pathway Index GBP Hdgd	238.0	239.2	16.0%	10.0%	6.0%
LGIM UK Equity	8.5	8.6	0.6%	0.0%	12.8%
LGIM World ex UK Dev Equity Index	94.9	92.4	6.2%		
LGIM World ex UK Dev Equity Index GBP Hdgd	83.4	79.4	5.3%		
LGIM World Emerging Markets Equity Index	12.4	12.1	0.8%		
LGIM Future World Global Equity Index GBP Hdgd	109.7	103.7	6.9%	15.0%	-8.1%
LGIM Future World Global Equity Index	71.0	68.4	4.6%	10.0%	-5.4%
LCIV Emerging Markets	72.6	68.1	4.5%	5.0%	-0.5%
LCIV Sustainable Exclusion	47.2	42.9	2.9%	5.0%	-2.1%
Schroder Life Diversified Growth	152.2	148.3	9.9%	0.0%	9.9%
Adams Street 2019 Global	30.5	36.9	2.5%	5.0%	-2.3%
Adams Street Global Secondaries	2.1	3.4	0.2%		
Total Growth	**922.6**	**903.5**	**60.3%**	**50.0%**	**10.3%**
IFM Global Infrastructure	81.3	84.8	5.7%	5.0%	0.7%
LCIV Renewable Infrastructure	10.2	11.1	0.7%	3.0%	-2.3%
Standard Life Long Lease Property	32.3	34.2	2.3%	2.5%	-0.2%
CBRE Global Alpha	29.0	29.0	1.9%	2.5%	-0.6%
Alcentra Multi-Credit	19.6	0.0	0.0%	3.5%	-3.5%
Barings Multi-Credit	42.5	40.9	2.7%	3.5%	-0.8%
Insight Secured Finance	46.2	90.1	6.0%	6.0%	0.0%
M&G ABS Alternative Credit	31.3	0.0	0.0%	0.0%	0.0%
Schroder All Maturities Corporate Bond	141.7	132.6	8.8%	10.0%	-1.2%
Alcentra Direct Lending	16.9	16.1	1.1%	1.5%	-0.4%
Partners Group MAC 2015	5.2	4.5	0.3%	0.0%	0.3%
Partners Group MAC 2017	17.3	15.6	1.0%	3.0%	-2.0%
Partners Group MAC V	29.2	29.4	2.0%	2.5%	-0.5%
LCIV Private Debt	19.7	24.4	1.6%	4.0%	-2.4%
Barings Global Special Situations Credit	17.8	19.6	1.3%	2.0%	-0.7%
Total Income	**540.2**	**532.2**	**35.5%**	**49.0%**	**-13.5%**
Cash	56.0	63.3	4.2%	1.0%	3.2%
Total Fund	**1,518.8**	**1,499.0**	**100.0%**	**100.0%**	-

Strategic allocation



Source: Investment Managers.

The table shows a summary of the Fund performance, net of investment management fees, over selected time periods.

Manager performance (net of fees)

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Growth												
LGIM RAFI Carbon Pathway Index GBP Hdgd	0.5	0.3	**0.2**	11.6	11.3	**0.3**	11.3	11.2	**0.0**	9.5	9.5	**0.0**
LGIM UK Equity	0.5	0.5	**0.1**	13.2	13.0	**0.1**	5.4	5.3	**0.1**	6.4	6.3	**0.1**
LGIM World ex UK Dev Equity Index	-2.7	-2.7	**0.0**	14.7	14.7	**0.0**	15.4	15.4	**0.0**	13.6	13.6	**0.0**
LGIM World ex UK Dev Equity Index GBP Hdgd	-4.8	-4.8	**0.0**	10.8	10.8	**0.0**	n/a	n/a	**n/a**	14.1	14.2	**-0.1**
LGIM World Emerging Markets Equity Index	-2.5	-2.5	**0.0**	-3.6	-3.5	**-0.1**	5.5	5.6	**-0.1**	7.9	8.0	**0.0**
LGIM Future World Global Equity Index GBP Hdgd	-5.5	-5.5	**0.0**	9.1	9.0	**0.1**	n/a	n/a	**n/a**	9.1	9.0	**0.1**
LGIM Future World Global Equity Index	-3.8	-3.8	**0.0**	12.3	12.1	**0.2**	n/a	n/a	**n/a**	12.3	12.1	**0.2**
LCIV Emerging Markets	-6.1	-4.3	**-1.9**	-10.4	-7.1	**-3.5**	n/a	n/a	**n/a**	7.4	5.4	**1.9**
LCIV Sustainable Exclusion	-9.1	-2.4	**-6.8**	4.2	10.0	**n/a**	n/a	n/a	**n/a**	4.2	10.0	**-5.2**
Schroder Life Diversified Growth	-2.7	3.0	**-5.6**	3.1	12.3	**-8.3**	5.9	8.2	**-2.2**	4.4	7.7	**-3.0**
Adams Street 2019 Global	12.8	7.3	**5.2**	120.9	24.7	**77.1**	n/a	n/a	**n/a**	120.1	19.9	**83.6**
Adams Street Global Secondaries	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**n/a**
Income												
IFM Global Infrastructure	4.3	2.4	**1.8**	22.0	10.0	**11.0**	13.5	10.0	**3.2**	12.7	10.0	**2.5**
LCIV Renewable Infrastructure	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**n/a**
Standard Life Long Lease Property	2.7	-6.7	**10.1**	14.0	-3.1	**17.6**	n/a	n/a	**n/a**	7.4	1.0	**6.4**
CBRE Global Alpha	4.0	2.2	**1.8**	12.1	9.0	**2.9**	n/a	n/a	**n/a**	5.8	9.0	**-3.0**
Alcentra Multi-Credit	-1.4	0.7	**-2.0**	4.5	3.8	**0.7**	3.6	4.3	**-0.6**	4.7	4.4	**0.3**
Barings Multi-Credit	-3.6	1.2	**-4.8**	1.1	5.1	**-3.9**	2.9	5.4	**-2.4**	4.3	5.5	**-1.1**
Insight Secured Finance	0.0	1.1	**-1.0**	2.7	4.1	**-1.4**	2.9	4.4	**-1.4**	3.2	4.5	**-1.2**
M&G ABS Alternative Credit	-0.5	0.3	**-0.7**	1.0	1.6	**-0.6**	1.7	2.0	**-0.4**	2.1	2.2	**-0.1**
Schroder All Maturities Corporate Bond	-6.4	-6.2	**-0.3**	-4.6	-5.1	**0.6**	2.7	1.1	**1.6**	5.3	4.8	**0.5**
Alcentra Direct Lending	3.7	2.3	**1.3**	10.3	9.5	**0.7**	5.7	9.5	**-3.5**	6.3	9.5	**-2.9**
Partners Group MAC 2015	0.8	0.9	**-0.1**	11.7	4.8	**6.6**	5.0	5.3	**-0.3**	6.7	5.0	**1.6**
Partners Group MAC 2017	0.8	0.9	**-0.1**	5.0	4.8	**0.2**	4.3	5.3	**-1.0**	4.4	5.0	**-0.6**
Partners Group MAC V	0.7	0.9	**-0.2**	4.5	4.8	**-0.3**	n/a	n/a	**n/a**	5.3	5.0	**0.3**
LCIV Private Debt	-2.8	1.5	**-4.3**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	0.8	3.0	**-2.1**
Barings Global Special Situations Credit	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**n/a**
Total	**-1.9**	**-1.5**	**-0.5**	**7.4**	**6.6**	**0.7**	**8.9**	**8.7**	**0.3**	**6.8**	**7.7**	**-0.9**

The Q1 22 performance for Alcentra Direct Lending and CBRE Global Alpha are as at Q4 21, due to a lag applied by the manager. Hymans Robertson estimate the performance numbers for the Partners Group, Alcentra Direct Lending, Adams Street Partners 2019 Global and IFM Global Infrastructure mandates. As such these may differ to the managers' net IRR.

Source: Fund performance provided by Investment Managers and is net of fees.
Benchmark performance provided by Investment Managers and DataStream

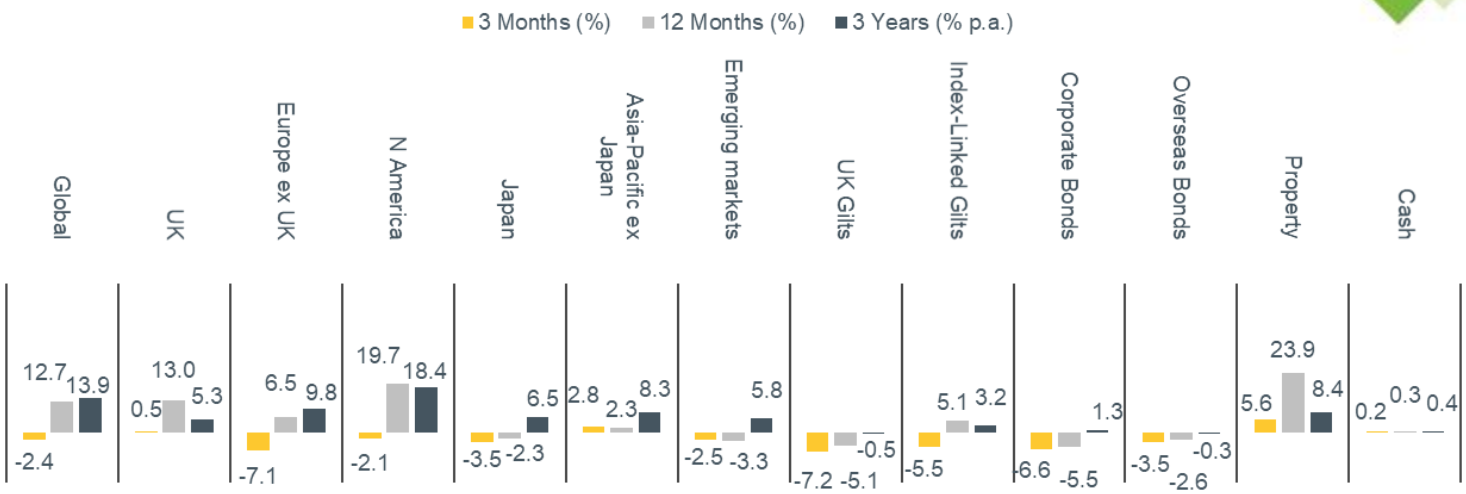
Market Background

Physical disruptions and sanctions caused by the Russia-Ukraine conflict have triggered broad commodity price rises which, alongside existing inflationary pressures, are increasing input costs and weighing on consumer's real incomes. As a result, CPI forecasts have reached new highs while consensus forecasts for global growth have been revised downwards, but still point to a relatively robust pace of growth over 2022 and 2023 by post-Global Financial Crisis standards.

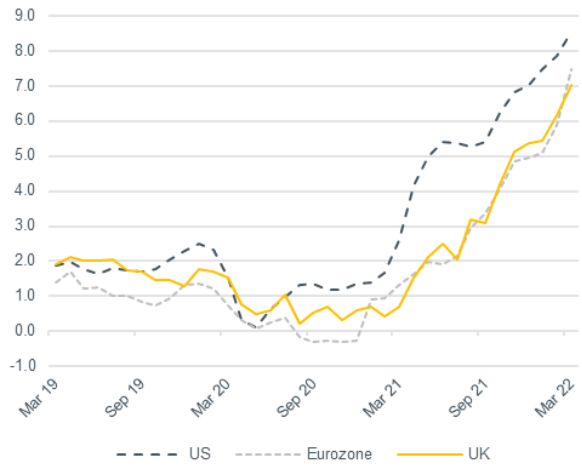
The inflation backdrop has seen central banks turn more hawkish this year, despite the potential downside risks to growth from higher commodity prices. After a first hike in December, the Bank of England raised rates twice in Q1, to 0.75% p.a., and, as expected, the US Federal Reserve raised rates by 0.25% p.a. in March, with the median voting member now expecting seven rate rises in 2022 and four in 2023. The European Central Bank confirmed its asset purchases will end this year, leaving the door open to an interest rate rise, while the Fed noted plans to reduce the size of its balance sheet.

Global sovereign bond yields rose significantly to reflect increased rate rise expectations with UK 10-year gilt yields rising 0.7% p.a., to 1.6.% p.a. UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, rose 0.5% p.a. to 4.4% p.a., as real yields rose to a lesser extent then their nominal counterparts.

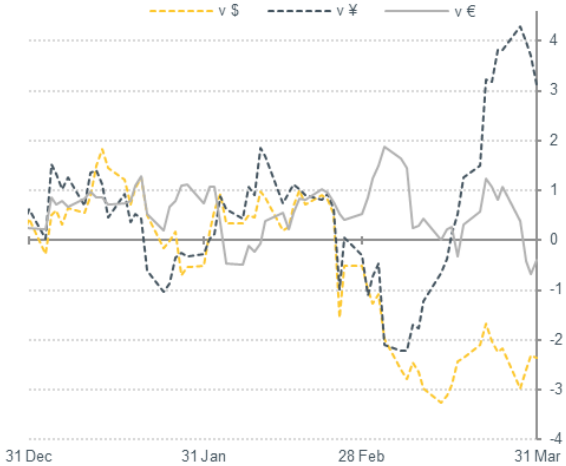
Historic returns for world markets [1]



Annual CPI Inflation (% p.a.)



Sterling trend chart (% change)



Source: DataStream. [1] Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property; UK Interbank 7 Day

Market Background

Global investment-grade spreads increased by 0.3% p.a., while US and European speculative-grade spreads increased 0.3% p.a. and 0.7% p.a., respectively. Larger increases in European spreads perhaps allude to the greater exposure of European corporates and consumers to higher energy prices.

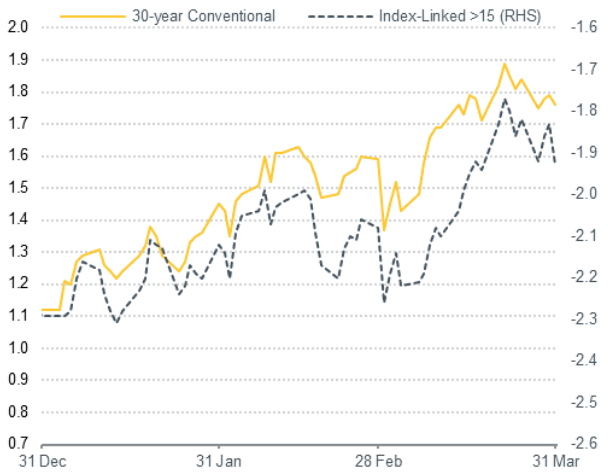
Commodity prices surged to extreme levels and faster expected monetary tightening in the US contributed to a rally in the dollar, whilst safe-haven appeal drove gold prices higher.

Concerns about central bank tightening, slowing earnings momentum, and the geopolitical situation have all contributed to global equities falling 4.6% this year, despite a bounce back in March. Value stocks notably outperformed growth stocks as rising yields weighed most heavily on the valuations of stocks with earnings growth further in the future, such as those in the technology sector. The consumer discretionary sector also underperformed as markets considered the impact of inflation on real consumer incomes. Surging oil and gas prices sees the energy sector lead the year-to-date performance rankings.

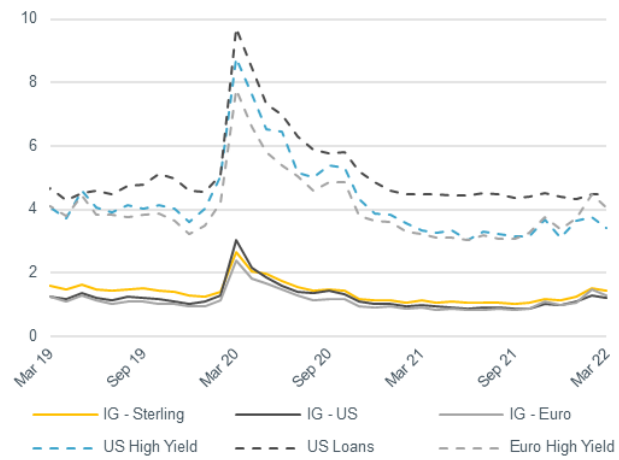
The UK AND Asia – Pacific ex Japan were the only regions to deliver a positive return, benefiting from above-average exposure to energy, metals, and miners. Europe fell to the bottom of the performance rankings, whilst Emerging Markets fell further as new COVID-19 lockdowns and broader geopolitical concerns weighed on Chinese markets.

A 18.0% rise in the MSCI UK AREF capital value index over the 12 months to the end of March is largely attributable to a 36.8% rise in industrial capital values. Return on the All-Property Index, including income, was 23.9% in the 12 months to end-March.

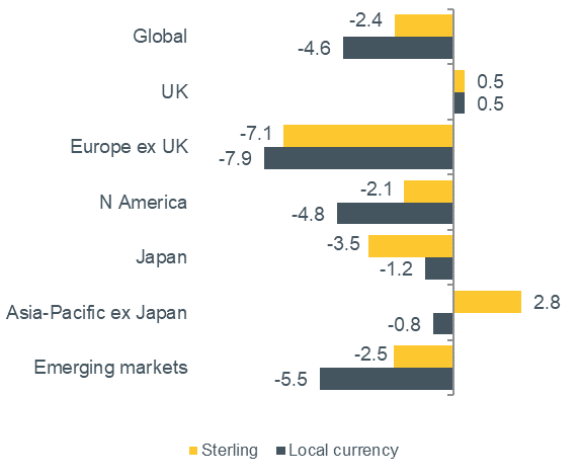
Gilt yields chart (% p.a.)



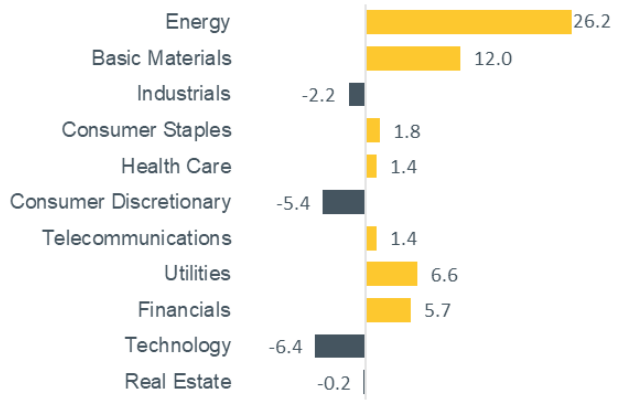
Investment and speculative grade credit spreads (% p.a.)



Regional equity returns [1]



Global equity sector returns (%) [2]



Source: DataStream, Barings, ICE [1] FTSE All World Indices. Commentary compares regional equity returns in local currency. [2] Returns shown in Sterling terms and relative to FTSE All World.

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

Geometric v Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + Fund\ Performance)}{(1 + Benchmark\ Performance)} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance - Benchmark\ Performance$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.

This page is intentionally left blank

AGENDA ITEM 14

Pension Fund Committee

11 July 2022

Title	**Cessation Refund Recommendations**
Report of	Executive Director of Strategy & Resources (S151 officer)
Wards	N/A
Status	Public with exempt appendices
Urgent	No
Key	No
Enclosures	Appendix A – Discussion on Fremantle Trust Surplus **(exempt)** Appendix B – Discussion on Hartwig Surplus **(exempt)** **Exempt enclosures - Not for publication by virtue of paragraphs of Schedule 12A of the Local Government Act 1972 as amended (Information relating to the financial or business affairs of any particular person (including the authority holding that information) and, in respect of Appendix B, paragraph 5 (information in which a claim to legal professional privilege could be maintained in legal proceedings) .**
Officer Contact Details	Mark Fox, Pensions Manager 0208 359 3341

Summary

This report provides the Pension Fund Committee with a recommendation of refund on cessation for Fremantle Trust and Hartwig.

Officer Recommendations

That the Pension Fund Committee agree the level of refund that should be provided to Fremantle Trust and Hartwig.

WHY THIS REPORT IS NEEDED

1.1 The Report is to enable the Pensions Fund Committee to reach decisions on cessations.

Background

1.2 When the last active member leaves the Local Government Pension Scheme a cessation valuation must be calculated. The Actuary calculates both assets and liabilities in relation to the Employer to understand if there is a surplus or deficit at the end of the contract.

1.3 Following a change in Regulations in May 2018, it became necessary for the Council as administering authority to consider whether some, all or none of a cessation surplus should be returned to an employer who ceased to participate after this date. Additional guidance was issued in 2020 which formed the basis of the exit credit policy approved by the Committee in October 2021. The main aspects of the policy are:

- The final decision rests with the Pension Fund Committee
- Representations will be sought from the existing employer and any other party who carried pension risk relating to the contract
- Consideration will be given to:
    - The extent to which the surplus is derived from employer's contributions, and
    - Whether there was any risk sharing arrangements in place.

1.4 There is a presumption that contracts signed before May 2018 recognised the risks inherent in pension scheme funding and were priced to reflect the cessation provisions at the date of contract signing, with no expectation of surplus refund.

1.5 Where an admission agreement ends early, the Pension Fund Committee will consider the reason for the early termination, and whether that should have any relevance on the determination of the value of any exit credit payment.

1.6 A key part of the policy in relation to pre May 2018 admissions states:

For pre-14 May 2018 admissions, the Pension Fund Committee will take into account the fact that original commercial contracts between admission bodies and letting authorities/guarantors could not have been drafted with regard to the May 2018 regulation changes that implemented exit credits retrospectively. Subject to any representations to the contrary, it will be assumed that the

employer priced the contract accordingly and that no subsequent agreements covering the ownership of exit credits have been negotiated."

1.7 This essentially reflects that any contracts agreed prior to May 2018 would be unlikely to price potential upside of pension experience within the wider contract because there was no legislative mechanism to benefit from that upside. However, any contract could experience downside in relation to the Pension Fund and so should have been priced in the commercial contract. Note the policy states "will" not "may".

1.10 Further details and advice regarding Fremantle Trust are included in the exempt Appendix A and Hartwig in the exempt Appendix B.

2. REASONS FOR RECOMMENDATIONS

2.1 The Committee should be notified and approve any refunds on Cessation.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not applicable.

4. POST DECISION IMPLEMENTATION

4.1 Not applicable

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 By monitoring admitted body organisations and ensuring all third parties comply fully with admission agreements and bond requirements, good management of the Pension Fund is maintained. This is because the cost of providing benefits will be equitably split between all employers, thus enabling funds to be directed to Council priorities as set out in the Council's Corporate Plan for 2020-2025.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 There are no immediate financial implications from the report. However, it is important that admitted bodies have their contribution set by the Actuary to ensure that employers can commence membership in the Scheme with an equitable contributions rate and that cessation values are calculated to ensure that any deficits from ceasing employers are paid for.

5.3 **Social Value**

5.3.1 Membership of the Pension Fund ensures the long term financial health of the contributing employees on retirement.

5.4 **Legal and Constitutional References**

The Council's Constitution – Article 7 – sets out the responsibilities of the Pension Fund Committee which are to have responsibility for all aspects of the governance, investment and administration of the LB Barnet Pension fund It is therefore considered appropriate for the Pension Fund Committee to receive this report.

Regulation 64 of the Local Government Pension Scheme Regulations 2013 (as amended in 2020) requires an administering authority to determine the amount of exit credit taking into account certain factors.

5.5 **Risk Management**

5.5.1 The ongoing viability of the Pension Fund is dependent on acquiring assets that match the pension liabilities. All admitted bodies are subject to actuarial assessments and are reviewed to ensure compliance with admissions agreements and maintenance of appropriate employer contribution levels to mitigate against any risk to the financial viability of the pension fund.

5.5.2 There is a possibility of financial losses to the Pension Fund where arrangements around admitted bodies, bond agreements and contributions are not sufficiently robust. The Council is improving internal controls to ensure the Fund is protected.

5.6 Equalities and Diversity

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 3) fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010.

Good governance arrangements will benefit everyone who contributes to the fund.

5.7 **Corporate Parenting**

5.7.1 Not applicable in the context of this report.

5.8 **Consultation and Engagement**

5.8.1 Not required.

5.9 **Insight**

5.9.1 Not applicable

6. ENVIRONMENTAL IMPACT

6.1 None

7. BACKGROUND PAPERS

7.1 None

0	**Pension Fund Committee** **11 July 2022**
Title	**Pension Fund Costs and Expenses**
Report of	Executive Director of Strategy and Resources
Wards	n/a
Status	Public with exempt appendices.
Urgent	No
Key	No
Enclosures	Appendix 1 - Pension scheme costs for 2021/22 **(exempt)** Appendix 2 – Notes on costs and expenses **(exempt)** **Exempt enclosures - Not for publication by virtue of paragraphs 3 of Schedule 12A of the Local Government Act 1972 as amended.**
Officer Contact Details	Adam McPhail, Finance Manager adam.mcphail@barnet.gov.uk - 0208 359 7639

Summary

This report summarises the Pension Fund costs for the year to 2021/22, with a comparison to the previous year.

Officer Recommendations

(1) That the Committee note the scheme costs for the year 2021/22.

1. WHY THIS REPORT IS NEEDED

1.1 Pension fund investment management fees and administration and governance costs are significant, £13.943 million for 2021/22, this report allows committee to assure themselves of its reasonableness. The majority of the in year costs related to investment management fees. The breakdown of costs in Appendix 1 is to enable the Committee to monitor scheme expenditure.

1.2 Attached to the paper are two appendices detailing costs in the year to 31 March 2022 with a comparison to the two previous years.

1.3 Costs charged directly to funds in which we invest, including transaction costs, are based on reports from managers and cannot be independently verified. The reporting of costs is becoming standardised with the introduction of a widely used template for expense reporting. Part of the upward trend in disclosed costs is due to more complete reporting of costs. In addition, as most fees are based on the value of investments, the 16% increase in average value on quarterly valuations will have translated into a similar scale of increase in management fees. A further factor has been the shift from low-cost passive equities to higher cost structures, most relevant being switches to LGIM Future Worlds, LCIV emerging markets and LCIV sustainable equities.

1.4 Costs which are invoiced, are reviewed by the Pension team and if necessary, discussed with the Executive Director of Strategy and Resources.

1.5 The increase in reported costs of £2.155 million is mainly due to the following:

Adams Street Private Equity- Adams Street costs appear high as a percentage of money invested due to the fact that their costs are based on commitments, rather than invested amounts. As the fund committed approximately £40m ($55m in USD denominated fund) to Adams Street Secondaries fund in year, the Adams Street Costs have increased by £1.39m.

LCIV Emerging Markets Equity- Overall costs have increased by £0.231 from the previous year, due to increased average holding in 2021/22. The average holding increased from £58.306m to £73.943m, with the fee rate being 0.54%.

IFM- The fund manager has charged £0.991m more in performance fees than in the previous year. This is due to the fund achieving a net return in 2021/22 of 16.5%, which is 2.2% higher than the previous year.

The fund has also made investments into new funds during the year, with total fees from these new funds being £0.644m.

1.6 LBB recharges to the pension fund the cost of internal staff. Costs in the year are shown in the table below:

	2020/21	2021/22	2022/23 Budget
LBB Finance Staff	506,654	342,978	357,000
Other LBB Staff	330,231	302,438	315,000
Pension Admin Team	502,367	289,613	290,000
Pension Admin Projects	5,197	0	0
IT	20,966	20,966	21,000
Legal	7,462	7,164	7,500
Subscriptions	0	0	0
	1,372,877	**963,159**	**990,500**

Overall, the recharges are £410k less in 2021/22 than in the previous year. This is mainly due to the reduction of the previous administrators' fees as the contract ceased in 2020/21 (£0.279m in 2020/21). Also, the percentage recharged to the fund for the HR model was reduced from 10% in 2020/21 to 5% in 2021/22, resulting in a cost reduction of £99k. Finally, there were decreased staffing costs as two staff members left in year, as they were temporary to support the transfer to WYPF.

Pension Administration costs were charged directly to the fund by West Yorkshire Pension Fund, in 2021/22 these totalled £0.436m. The fee is low to what was expected, this is due to £0.071m being deducted from the 2021/22 fee as an adjustment to the 2020/21 invoice. In 2022/23 we expect the fee to be around £0.54m.

Hymans actuarial charges were £0.125m in 2021/22 (£0.115m in 2020/21).

1.7 Reporting of costs to the Committee will help to ensure that these are properly scrutinised and challenged by officers prior to payment.

1.8 Internal Audit have recommended that the reporting of costs include reporting of contributions and benefits. The table below summarises contribution income and benefit expenditure in the last two years.

	2020/21 £000	2021/22 £000	2022/23 Budget £000
Employees' Contributions	11,898	**13,073**	**13,600**
Employers' Contributions			
Normal Contributions	37,083	40,759	42,500
Deficit Recovery Contributions	25,930	4,023	4,100
Augmentaion Contributions	4,072	4,135	4,200
Total Employers' Contributions	**67,085**	**48,917**	**50,800**
Total Contributions Recievable	**78,983**	**61,990**	**64,400**

Pensions	49,480	51,384	53,500
Commutation and Lump Sum Retirement Benefits	8,469	10,479	11,000
Lump Sum Benefits	984	1,719	1,800
Total Benefits Payable	**58,933**	**63,582**	**66,300**

Net Contributions Received	**20,050**	**(1,592)**	**(1,900)**

Benefits paid exceeded contribution income by £1.592 million in the last 12 months. The difference to last year is almost entirely attributable to the council's pre-payment of £21m in 2020/21. It is expected that benefit payments will continue to be greater than contribution income in 2022/23, reflecting the final year's pre-payment of deficit contributions (£8 million relates to 2022-23) in 2020-21 and an increase in retirements in the wake of the COVID-19 pandemic. The estimates for 2022/23 are made on the basis of prudency, as the increase between 2021/22 and 2020/21 are used for the benefit increase on all types of benefit. Whereas the estimates for contribution income are made purely on the current income increasing by the 4% for inflation.

2. REASONS FOR RECOMMENDATIONS

2.1 The report is for noting.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None

4. POST DECISION IMPLEMENTATION

4.1 N/A.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities.

5.2 **Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

5.2.1 The Pension Fund costs are ultimately reflected in the employers' contribution rates and good management of costs will help to control contribution rates.

5.3 **Social Value**

5.3.1 Membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 **Legal and Constitutional References**

5.4.1 Constitution – Under article 7 one of the responsibilities of the Pension Fund Committee is 'To meet review and consider approval of the Pension Fund Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts'. A review of expenses falls within that remit.

5.4.2 There are no relevant legal references.

5.5 **Risk Management**

5.5.1 Monitoring of expenditure is a key element of protecting the assets of the pension fund.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation, marriage and civil partnership.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The public sector equality duty requires public authorities in carrying out their functions to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

5.7 **Consultation and Engagement**

5.7.1 Not applicable

5.8 **Insight**

5.8.1 Not applicable

6. ENVIRONMENTAL IMPACT

6.1 None

7. BACKGROUND PAPERS

7.1 None

London Borough of Barnet

Pension Fund Committee Work Programme

July 2022 – June 2023

AGENDA ITEM 16

Title of Report	Overview of decision	Report Of *(officer)*	Issue Type (Non- key/Key/Urgent)
September 2022 (TBC)			
Funding Strategy Statement	Consider initial proposals for Funding Strategy Statement and confirm consultation process	Chief Finance Officer	Non-key
Responsible Investment	Consider output from Sustainability Training day and agree revisions to Responsible Investment policy.	Chief Finance Officer	Non-key
External Audit plans	To comment on the work programme of the external auditors for the 2021-22 accounts.	Chief Financial Officer	Non-Key
10 November 2022			
Triennial Valuation	Consider initial results from Triennial Valuation for Barnet Pool	Chief Financial Officer	Non-key
Quarterly investment report to 30 September 2022	Review investment activity and the performance of the fund and investment managers.	Chief Financial Officer	Non-key
Strategy and manager appointment updates	To review progress on agreed strategy changes and fund manager appointments.	Chief Financial Officer	Non-key
Admission Agreement and Bonds	To provide an update on admissions, cessations and bond renewals.	Chief Financial Officer	Non-key
Administration report	To update the Committee on the performance of the administration service, including issue of ABS.	Chief Financial Officer	Non-key
Review of scheme expenses	To review the scheme costs incurred in the six months to 30 September 2022.	Chief Financial Officer	Non-key

Subject	Decision requested	Report Of	Issue Type (Non-key/Key/Urgent
Annual accounts for the year to 31st March 2022.	To approve the Pension Funds Annual Accounts.	Chief Financial Officer	Non-key
Responsible Investment	To review progress against Responsible Investment policy	Chief Finance Officer	Non-key
Pooling update	To note developments in pooling and to review Barnet's pooling plan.	Chief Financial Officer	Non-key
31 January 2023			
Triennial Valuation	To consider responses to Funding Strategy Statement consultation and instruct Scheme Actuary to prepare final results	Chief Financial Officer	Non-Key
Quarterly investment report to 31 December 2022	Review the investment activity and the performance of the fund and its investment managers.	Chief Financial Officer	Non-Key
Investment strategy & manager appointments	To determine if a strategy review is required following completion of the 2022 triennial valuation.	Chief Financial Officer	Non-Key
LCIV presentation	To provide an update on LCIV developments	Chief Financial Officer	Non-Key
Responsible Investment	To review progress against Responsible Investment policy and consider DHULC consultation on TCFD reporting	Chief Financial Officer	Non-key
Admission Agreement and Bonds	To provide an update on admissions, cessations and bond renewals.	Chief Financial Officer	Non-key
Administration report	To update the Committee on the performance of the Pension Administrator.	Chief Financial Officer	Non-key

Subject	Decision requested	Report Of	Issue Type (Non-key/Key/Urgent
Review of Pension Fund Risk Register	To review the management of pension fund risks.	Chief Financial Officer	Non-key
22 March 2023			
Triennial Valuation Update	Finalise any outstanding matters in relation to the triennial valuation	Chief Financial Officer	Non-key
Quarterly investment report to 31 December 2021	Review the investment activity and the performance of the fund and its investment managers.	Chief Financial Officer	Non-Key
Investment strategy & manager appointments	To receive Hymans' recommendations and approve the updated investment strategy statement.	Chief Financial Officer	Non-Key
Responsible Investing Update	To monitor progress on Stewardship Code and TCFD reporting.		
Administration report	To update the Committee on the performance and plans for the administration service.	Chief Financial Officer	Non-key
Annual report of the Local Pension Board	Consider any recommendations from the Local Pension Board, comment on their workplan and approve their budget.	Chief Financial Officer	Non-key
Admission Agreement and Bonds	To provide an update on admissions, cessations and bond renewals.	Chief Financial Officer	Non-key
Review of Pension Fund Risk Register	To review the management of pension fund risks.	Chief Financial Officer	Non-key

AGENDA ITEM 18

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

AGENDA ITEM 19

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

AGENDA ITEM 20

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

AGENDA ITEM 21

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

AGENDA ITEM 22

Document is Restricted

This page is intentionally left blank