MEETING
PENSION FUND COMMITTEE
DATE AND TIME
WEDNESDAY 22ND MARCH, 2023
AT 6.00 PM
VENUE
HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4AX

TO: MEMBERS OF PENSION FUND COMMITTEE (Quorum 3)

Chair: Anne Hutton
Vice Chair: Andreas Ioannidis

Zahra Beg	Arjun Mittra	Michael Mire
Simon Radford	Danny Rich	Mark Shooter
Elliot Simberg		

Substitute Members

Edith David	Richard Barnes	Alison Moore
Peter Zinkin	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 17 March 2023 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 Services contact: Paul Frost – paul.frost@barnet.gov.uk – 0208 359 2205
Media Relations Contact: Tristan Garrick 020 8359 2454

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ASSURANCE GROUP

ORDER OF BUSINESS

18.	Any item(s) that the Chairman decides is urgent	

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Decisions of the Pension Fund Committee

31 January 2023

AGENDA ITEM 1

Cllr Anne Hutton (Chair)
Cllr Andreas Ioannidis (Vice-Chair)

Zahra Beg
Simon Radford (substituting for Cllr Danny Rich)
Mark Shooter
Michael Mire

1. MINUTES (Agenda Item 1):

RESOLVED that the minutes of the meeting held on 10 November 2022 be agreed as a correct record.

2. ABSENCE OF MEMBERS (Agenda Item 2):

The Pension Fund Committee noted the apologies for absence from Councillor Elliot Simberg and Councillor Danny Rich who was substituted by Councillor Richard Barnes.

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

Councillor Michael Mire made a declaration, he noted that his wife worked at a school that was noted within item 9. Councillor Mire took part in the consideration and determination of the item.

Councillor Simon Radford made a declaration, he noted that he was a Governor at a school that was noted within item 9. Councillor Radford took part in the consideration and determination of the item.

Councillor Andreas Ioannidis made a declaration, he noted that he was an employee of Middlesex University and so a member of the Middlesex Pension Scheme (which is a separate pension scheme not linked to the Barnet Pension Fund). Councillor Ioannidis took part in the consideration and determination of the item.

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. CASH MANAGEMENT (Agenda Item 7):

The Head of Pensions and Treasury introduced the report. He noted that the Fund did not currently have a strategy to deal with high cash balances and this means that the council's pension fund is not maximising the risk adjusted returns for the funds we hold. He therefore requested that the Committee consider the report and its recommendations.

Representatives from Hymans Robertson were in attendance to provide a verbal update.

Members welcomed the report and gave thanks to Hymans Robertson for their work. Having considered the report the Pension Fund Committee:

Resolved:

- Agreed to the proposed amendment to the Fund's Investment Strategy Statement (set out in Appendix A) to include protocols for managing high cash balances –

- Agreed to the appointment of Trade Finance managers, Allianz and Pemberton, to allow Officers to deliver the cash management strategy, as recommended by our Investment Consultants, Hymans Robertson0

- That the exempt information be noted.

8. OFFICER DELEGATION PROPOSAL (Agenda Item 8):

The Finance Manager introduced the report. He noted that the report marked a recommendation to improve overall Governance of the Fund's investment management processes by codifying delegation protocols in certain defined situations.

Having considered the report the Pension Fund Committee:

Resolved:

- Agreed delegation protocols for the Executive Director of Strategy and Resources to, in consultation with the Chair, re-balance the Pension Fund assets according to the strategic allocation set by the Pension Fund Committee
- Agreed delegation protocols for the Executive Director of Strategy and Resources to be able to take action in an urgent situation, in consultation with the Chair. Members agreed the delegation protocols as summarised under 2.3.1 of the report

9. ADMITTED BODY AND BOND STATUS (Agenda Item 9):

The Pension Manager introduced the report. He provided a status update on the outstanding admitted body and bond agreements/renewals, as well as cessations from the Fund.

Having considered the report the Pension Fund Committee:

Resolved:

- That the Pension Fund Committee noted the progress on outstanding admitted body and bond agreements/renewals and cessation valuations.

- That the Pension Fund Committee approved the admission into the Fund of Capita Shared Services Limited and Chequers Cleaning) as detailed in paragraph 1.3.

- That the Pension Fund Committee approved the decision by the LBB Pensions Team in relation to the exit credit payment for Caterlink (Queen Elizabeth Girls School)) as detailed in paragraph 1.12.

10. EXTERNAL AUDIT UPDATE (Agenda Item 10):

The Assistant Finance Manager introduced the report. Executive Director of Strategy and Resources (S151 officer) provide a full update on the position of the Council's external accounts.

Having considered the report the Pension Fund Committee:

Resolved:

That the Pension Fund Committee noted the update on the 2020/21 audit, and the plan for the 2021/22 audit, and to identify matters that the Committee wish to bring to the attention of the auditor.

11. INVESTMENT STRATEGY AND MANAGER APPOINTMENTS (Agenda Item 11):

The Assistant Finance Manager introduced the report. He provided a summary of the investment transactions made in 2022, and an overview of the planned investment transactions in 2023. He therefore requested that the Committee consider the report and its recommendations.

The Chair requested that the Committee receive further information on how the Committee can invest 5% locally and this be incorporated within the investment strategy. Hymans Robertson noted that the regulations are not clear on this matter at this time. It was further noted that the term local was understood to mean "within the UK" rather than within the immediate vicinity of a pension fund. Hymans Robertson guided that the Committee should receive the regulations on this matter when they are published.

The Head of Pensions and Treasury noted that the Fund would be undertaking a full strategic review to determine the overarching strategic allocation. Once this was complete more consideration could be given to the specific funds that may be utilised to deliver the strategic allocation.

Having considered the report the Pension Fund Committee:

Resolved:

- The Pension Fund Committee noted the investment transactions that occurred in 2022, and the planned transactions for 2023.
- The Pension Fund Committee agreed to delegate the signing of the MiFid Opt[1]Up form to the Head of Pensions, in order to allow Officers to implement transactions through London CIV.

12. KNOWLEDGE AND UNDERSTANDING (Agenda Item 12):

The Committee received the report.

Having considered the report the Pension Fund Committee:

Resolved:

The Pension Fund Committee noted the report.

13. PENSION FUND INVESTMENT PERFORMANCE (Agenda Item 13):

The Assistant Finance Manager introduced the report. Members received an update on investment valuations, transactions and performance in the 6 months to 31 December 2022 with an updated estimated valuation to 31 December 2022.

The Committee raised concerns with some of the performance of the fund managers. Specifically, it was noted that the Fund's investments with Adam Street had fallen materially (c40%) over the period 1 July 2022 to 30 September 2022. In questioning, Hymans Robertson noted that the specific fund in question was only partially drawn and large swings in returns were likely to be as a result of this (as well as some rebasing undertaken by the manager). The Committee asked for further comment on this to be fed back to the Committee at the next meeting.

Having considered the report the Pension Fund Committee:

Resolved:

Having considered the report the Pension Fund Committee:

Resolved:

- That the Pension Fund Committee noted the investment activities and performance of the Pension Fund for the quarter to 31 December 2022.

- That the exempt information be noted.

  - That further information on the Adam Street investments be provided at the next meeting.

14. POLICIES AND PROCEDURES REPORT (Agenda Item 14):

The Committee received the report.

Having considered the report the Pension Fund Committee:

Resolved:

The Pension Fund Committee noted the report.

15. DEVELOPING THE FUND'S RESPONSIBLE INVESTMENT STRATEGY - UPDATE (Agenda Item 15):

The Chair thanked the Head of Pensions and Treasury for the recent training day. She noted that it was excellent. The Head of Pensions and Treasury provided Members with an update on matters relating to Responsible Investing ("RI") with a view to further progressing the Fund's strategy in this area.

The Committee welcomed the report and endorsed the principles around setting a Net Zero policy as set out in the report.

Having considered the report the Pension Fund Committee:

Resolved:

That the draft principles for developing a framework for working towards a Net Zero investment strategy (as set out in the report under paragraph 1.18) be agreed.

16. VALUATION UPDATE (Agenda Item 16):

The Head of Pensions and Treasury introduced the report. The Chair invited the Fund Actuary to make a verbal update. He set out final proposals for the approach we will be adopted for the 31 March 2022 valuation and indicative contribution rates for employers.

The funding position of the Pension Fund and rate of contributions paid by employers is assessed every three years by the Fund Actuary.

Having considered the report the Pension Fund Committee:

Resolved:

- That the Committee agreed to the modify the approach for certain employers to a two-stage test (as explained in Appendix A) to maintain stability of funding contributions.

17. ADMINISTRATION AND DATA UPDATE REPORT (Agenda Item 17):

The Committee received the report

Having considered the report the Pension Fund Committee:

Resolved:

The Pension Fund Committee noted the current performance levels and updates on the data improvement plan and historical leaver exercise.

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

The Pension Fund Committee noted the work programme.

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

None.

The meeting finished at 20:43

	Pension Fund Committee **22 March 2023**
Title	**2022 Triennial Valuation**
Report of	Executive Director of Strategy and Resources
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Final Funding Strategy Statement Appendix B – Valuation Report including the Rates & Adjustment Certificate **(exempt)**
Officer Contact Details	Mark Fox, Pensions Manager, 0208 359 3341

Summary

The funding position of the Pension Fund and rate of contributions paid by employers is assessed every three years by the Fund Actuary.

This paper provides the Committee with the final Funding Strategy Statement (FSS) used to determine the approach adopted for the 31 March 2022 valuation and the setting of employer contribution rates.

The paper highlights the approach used to set the contribution rates for the London Borough of Barnet and Middlesex University

The paper updates the Committee on progress to identify the unexplained data item highlighted in the Actuary's valuation report.

BARNET
LONDON BOROUGH

Officers Recommendations
The Pension Fund Committee are asked to approve the Funding Strategy Statement (FSS) for 2023 – 2026 and note the Rates & Adjustments Certificate (included in the draft Valuation Report as Appendix B) and updates on the valuation and unexplained data item.

1. WHY THIS REPORT IS NEEDED

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

1.2 Every three years the fund actuary assesses the funding position of the Pension Fund and determines the contributions payable by each employer for the next three years. The last valuation was as at 31 March 2022, with the new rates and adjustment certificate 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”).

1.4 It is good governance and a requirement of the regulations that the Council consults with interested stakeholders before finalising its FSS.

High-level valuation timetable

1.5 A high-level overview of the valuation process, with comment on progress, is summarised below.

Item	Time frame	Progress
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	Complete
Consider prudence levels across employer base recognising covenant risk	July 2022	Complete
Cleanse membership data to use for valuation	By 31 July 2022	Analysing experience item (see 1.9 below)
Review draft ‘whole of fund’ results on initial prudence levels. Consider changes to prudence levels and likely contribution impact	November 2022	Considered at November PFC meeting
Consult with employers on any changes to Funding Strategy Statement	November to December 2022	Done Note introduction of two test approach to maintain

Item	Time frame	Progress
		Funding Stability for the 2022 valuation
Share draft results and contribution requirements with each employer	November to December 2022	Done
Finalise results and implement Rates and Adjustment certificate	By 31 March 2023	Done
New contributions come into effect	From 1 April 2023	Rates Agreed

Update on Valuation process

1.6 The final Funding Strategy Statement covering the period 1 April 2023 to 31 March 2026 is attached as Appendix A. As required by legislation, this document has been prepared by the Administering Authority in consultation with the Fund Actuary.

1.7 The Committee are asked for their approval of this document. The Rates and Adjustment Certificate implied by the FSS, which has been prepared by the Fund Actuary, is included in the Valuation Report in Appendix B.

1.8 There are two points to note regarding the FSS and Rates and Adjustment Certificate, which have been determined since the last Pension Fund Committee on 31 January 2023:

London Borough of Barnet ("the Council")

1.8.1 As detailed in paragraph 1.9 of the paper presented to the Committee at the 31 January 2023 meeting, the LBB Pensions Team were exploring a modification of approach for the Council to reflect the impact of prepaying contributions following the 2019 valuation.

1.8.2 In 2019, the Council's primary contribution rate on the Rates & Adjustment Certificate was based on a percentage of pay, but the secondary contribution rate was a fixed amount. In practice, over the period 1 April 2020 to 31 March 2023, the Council paid an employer contribution rate of 28.9% of pay (representing both the Primary and Secondary rates of contributions). The primary motivation for this is that it is complicate to allocate fixed nominal amounts between the various school employers.

1.8.3 The pensions team have undergone some testing of current rate of 28.9% against the strict amounts specified in the Rates and Adjustment certificate and can confirm that the amounts paid were at least sufficient to cover what was required (estimated by around £500k p.a. based on a payroll of £90m).

1.8.4 From an audit perspective, it is clearer to pay contributions in the same manner as specified in the Rates and Adjustment certificate and so the Rates and Adjustment certificate which covers the period 1 April 2023 to 31 March 2026 will set the Council's primary and secondary contribution rate as a percentage of pay.

1.8.5 The application of the 2022 valuation approach and assumptions leads to a required rate of 27.4% of pay, but that a rate of 28.4% will apply because:

1.8.5.1 The LBB Pensions Team wish to stabilise the employer contribution rate, so it is not reduced too soon, thus possibly requiring an increase following the 2025 valuation. This is the reason why "Test 2" (as detailed in the FSS) was introduced for the 2022 valuation for certain employers.

1.8.5.2 In setting a rate of 28.4% the Pensions Team has had regard to Test 2. The softer version relative to other employers in the Fund reflects the increased covenant of the Council relative to other employers.

1.8.5.3 As mentioned, switching the whole rate to a percentage of pay method is administratively easier to apply. However, the LBB Pensions Team also expect the total payroll for the Council to increase by more than assumed by the Actuary over the next three years (e.g. due to inflationary pressures and insourcing of various contracts) and so a modest reduction to the current contribution rate feels justified for the Council.

Middlesex University ("MU")

1.8.6 As previously notified the LBB Pensions Team have been discussing an appropriate funding approach for Middlesex University which recognises their covenant profile within the Fund.

1.8.7 Following the 2019 valuation, and from 1 July 2020, MU were paying a Primary Contribution rate of 20.7% of pay plus equivalent to a Secondary Contribution rate of 5.2% of pay.

1.8.8 The Pensions Team, in consultation with MU, have sought to develop a Funding Strategy that seeks to take less risk in future. These discussions have been helped by a significant change to market conditions since the 31 March 2022 (which has seen MU's deficit on a cessation basis reduce by more than £100m).

1.8.9 Following discussions, it has been agreed that MU will increase their contribution rates to broadly 32% of pay, which represents around a 5% p.a. increase to their current contribution rates. This contribution broadly targets a low-risk funding position over a 15 year period.

1.8.10 In addition, the Pensions Team will be working with MU to develop an investment strategy that supports an appropriate level of risk. We will also be working with MU over the next 12 months to implement appropriate covenant monitoring and protection measures.

1.8.11 Overall, the outcome for MU is positive for all stakeholders.

Unexplained Data item

1.9 As noted at the last two Committee meetings, there is a significant experience item due to unexplained data movements. This is likely to be due to improved data compared to the 31 March 2019 valuation. However, the experience item for data is significant and there is a potential risk that the data rectification was "over corrected".

1.10 We are still in process of analysing these differences and will bring a report to the July Committee meeting.

2. REASONS FOR RECOMMENDATIONS

2.1 Pension Funding is intrinsically uncertain and can be volatile. The Head of Pensions believes that the introduction of a two-stage test for the 2022 valuation is financially prudent and protects the sustainability of the Fund.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not implementing a second test for certain employers. The introduction of a second test for certain groups of employers was in response to initial results indicating that contribution rates would reduce for a large cohort of employers. The Head of Pensions, having taken advice of the fund actuary, did not feel it was appropriate to reduce contributions as initially indicated under test 1 at this time given likely headwinds and, specifically, commentary from the Scheme Advisory Board.

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**

The Council's Constitution (Article 7) – includes within the responsibilities of the Pension Fund Committee, "*To consider approval and act in accordance with statutory Pension Fund documents:*

- *Investment Strategy Statement*
- *Funding Strategy Statement*
- *Governance Policy Statement*
- *Pension Administration Strategy*
- *Communication Policy Statement.*

To review the above documents at least triennially, or more frequently if advised by the Chief Finance Officer of the need to do so."

5.4.1 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)

7.2 A link to the November Committee papers covering the valuation is linked here

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London Borough of Barnet Pension Fund
Funding Strategy Statement covering the period 1 April 2023 to 31 March 2026

Contents

1 Introduction

This document sets out the funding strategy statement (FSS) for the London Borough of Barnet Pension Fund. Through the consultation process this document was supplemented by a preface document and addendum (see Appendix E and Appendix F). These documents provide more specific commentary on our Strategy and experience since the last FSS was set as part of the 31 March 2019 valuation, as well as the rationale for introducing a second funding test for certain employers to help stabilise contribution rates. Further information was also provided at Pension Fund Committee meetings held on:

- 7 July 2022
- 10 November 2022
- 31 January 2023
- 22 March 2023

Papers relating to Pension Fund Committee meetings can be accessed here.

1.1 Context

The London Borough of Barnet Pension Fund is administered by Barnet Council, known as the administering authority. Barnet council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective over the period 1 April 2023 to 31 March 2026.

There's a regulatory requirement for Barnet Council to prepare an FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact david.spreckley@barnet.gov.uk.

1.2 What is the London Borough of Barnet Pension Fund?

The London Borough of Barnet Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

1.3 What are the funding strategy objectives?

In addition to the overall aims highlighted in the preface document, the more general funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.4 Who is the FSS for?

The FSS is mainly for employers participating in the fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.
Different types of employers participate in the fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Barnet Council has a number of wholly owned subsidiary companies who participate in the Fund and these have been treated as Schedule Bodies.

Middlesex University and Barnet & Southgate College are substantial Schedule Bodies within the Fund.

Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.5 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy at here.

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

1.6 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a ‘prudent longer-term view’ of funding liabilities (see Appendix A).

2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of three elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution

The primary rate also includes an allowance for the fund's expenses.

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

2.2 The contribution rate calculation

Table 2: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies				TABs
Sub-type	**Local authorities*** **	**Universities**	**Colleges**	**Academies**	**(all)**
Funding target*	Ongoing	Least Risk	Ongoing	Ongoing	Contractor exit basis, assuming fixed-term contract in the fund
Minimum likelihood of success**	70%	50%	70%	70%	70%
Maximum time horizon**	17 years	15 years	15 years	15 years	Same as the letting employer
Secondary rate	% of payroll	Monetary amount	Monetary amount	% of payroll	% of payroll
Phasing of contribution changes	None	None	None	3-years	None

**See Appendix D for further information on funding targets.*

***Where funding approach indicated a contribution rate would reduce a second test was applied to certain employers. The second test applied an 80% minimum likelihood of success over a 15-year period. Note that this test was not applied for Middlesex University, Barnet & Southgate College and Contractors. Further details on this approach and the rationale for adopting it is set out under Appendix F.*

****The Total Contribution for the Council using the parameters set out above was 27.4% of Pensionable Pay. After considering the output for the Council from applying Test 2 it was agreed to increase this rate to 28.4% of pay (from 28.9% paid prior to 1 April 2023).*

2.3 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The fund's policy can be found here. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.4 What is pooling?

The administering authority does not operate funding pools for similar types of employers, apart from LEA Schools which are pooled with the Council. This means that each employer of the Fund receives a specific contribution rate reflecting their underlying membership and asset share.

Note that Academies contribution rates were pooled at the 2019 valuation. However, this pooling was purely for administrative purpose and there was no actual cross subsidy of contributions or experience across different Academies. This meant that some Academies may have been substantially over or under paying contributions relative to their share of obligations.

For the 2022 valuation each Academies contribution will be assessed based on their actual share of obligations. Academies are subject to the two-test approach we have adopted for this valuation. Where an Academy's contribution rates has increased, we may, with the advice of the Actuary, spread any increase over a three-year period.

2.5 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided.

Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, asset backed funding, security over an asset or a negative pledge.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

An employer may decide to award an additional pension to an employee if this is allowed in their discretions policy. If an employer awards an additional pension, the employer must pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

Under its discretions policy, an employer may also decide to waive actuarial reductions when an employee retires before their normal retirement age. This may mean that there is an additional cost to the employer, who will be asked to pay this additional contribution, which is called a "strain payment".

This is payable when the employee retires, and employers must also make strain payments as a single lump sum immediately.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, there will be a funding strain cost to the employer, which may be a large sum.

The administering authority does not offer any arrangement to mitigate this. Individual employers should make their own arrangements if they are concerned about the risk of unmanageable ill-health strain costs.

The ill health funding strain cost is not paid at the time of retirement. It is included in the actuarial calculation of the employers' contribution rate at the triennial valuation following the employee's retirement.

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets. Each employer's assets are calculated triennially by considering cashflows paid in/out and investment returns to give a new asset value.

If an employee moves one from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share. Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring (see section 5.2).

4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

Benefits are valued in line with the regulations in force at the time of the valuation, with an exception relating to the McCloud ruling. The benefits of members likely to be affected by the McCloud ruling have instead been valued in line with the expected regulations, reflecting an underpin as directed by DLUHC.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body. New designated employers may also join the fund if they pass a designation to do so. On joining, the fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining. A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

5.2 New academies

New academies (including free schools) join the fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (i.e. members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. They won't be pooled with other employers unless the academy is part of a multi-academy trust (MAT) and the MAT requests that contributions are pooled. The new academies' contribution rate is based on the current funding strategy (set out in section 2) and the transferring membership.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority or in the contract admission agreement.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, e.g. set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority’s satisfaction.
After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body’s existing deficit.

6 What happens when an employer leaves the fund?

6.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the fund leaves the scheme.

6.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in Appendix D.

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix D.

(b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.

(c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund.

The cessation policy can be found here.

6.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The exit credit policy can be found here.

6.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement
- if an exiting employer enters into a deferred debt agreement, it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The employer flexibility can be found here.

6.5 What if an employer has no active members?

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA.

6.6 Are bulk transfers allowed?

Cases will be looked at individually, but generally:

- the fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- the fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

7 What are the statutory reporting requirements?

7.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the fund's solvency and long-term cost efficiency.

7.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level
or
(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

7.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors. Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- *establish a* ***clear and transparent fund-specific strategy*** *identifying how employers' pension liabilities are best met going forward*
- *support the regulatory framework to maintain* ***as nearly constant employer contribution rates as possible***
- *ensure the fund meets its* ***solvency and long-term cost efficiency*** *objectives*
- *take a* ***prudent longer-term view*** *of funding those liabilities.*

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include '*meaningful dialogue… with council tax raising authorities and representatives of other participating employers*'.

For the 31 March 2022 we ran a two-month consultation period running from 1 November 2022 to 31 December 2022. Each employer will be provided with a copy of this document (in draft form) and the opportunity to speak to the Head of Pensions and Treasury and the Scheme Actuary as required.

The Council also hosted an employer forum, which was attended by the Scheme Actuary and Officers to explain the document. During the consultation period employers received their individual results.

A3 How is the FSS published?

The FSS will be published here.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

The documents will be accessible here.

Appendix B – Roles and responsibilities

B1 The administering authority:

1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations
2 manages any conflicts of interest from its dual role as administering authority and a fund employer
3 collects employer and employee contributions, investment income and other amounts due
4 ensures cash is available to meet benefit payments when due
5 pays all benefits and entitlements
6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy
7 communicates with employers so they understand their obligations
8 safeguards the fund against employer default
9 works with the fund actuary to manage the valuation process
10 provides information to the Government Actuary's Department so they can carry out their statutory obligations
11 consults on, prepares and maintains the funding and investment strategy statements
12 tells the actuary about changes which could affect funding
13 monitors the fund's performance and funding, amending the strategy statements as necessary
14 enables the local pension board to review the valuation process.

B2 Individual employers:

1 deduct the correct contributions from employees' pay
2 pay all contributions by the due date
3 have appropriate policies in place to work within the regulatory framework
4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain
5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.
6 make any required exit payments when leaving the fund.

B3 The fund actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency
2 provides information to the Government Actuary Department so they can carry out their statutory obligations
3 advises on fund employers, including giving advice about and monitoring bonds or other security
4 prepares advice and calculations around bulk transfers and individual benefits
5 assists the administering authority to consider changes to employer contributions between formal valuations
6 advises on terminating employers' participation in the fund
7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1. internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement
2. investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS
3. auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements
4. governance advisers may be asked to advise the administering authority on processes and working methods
5. internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures
6. the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

Some of the key risks facing the Fund together with controls employed to manage those risks are summarised in the tables below

C2 Financial risks

Risk	Control
Fund assets don't deliver the anticipated returns that underpin the valuation of liabilities and contribution rates over the long-term.	Anticipate long-term returns on a prudent basis to reduce risk of under-performing. Use specialist advice to invest and diversify assets across asset classes, geographies, managers, etc. Analyse progress at three-year valuations for all employers. Roll forward whole fund liabilities between valuations.
Inappropriate long-term investment strategy.	Consider overall investment strategy options as part of the funding strategy. Use asset liability modelling to measure outcomes and choose the option that provides the best balance. Operate various strategies to meet the needs of a diverse employer group.
Active investment manager under-performs relative to benchmark. Pay and price inflation is significantly more than anticipated.	Use quarterly investment monitoring to analyse market performance and active managers, relative to index benchmark. Focus valuation on real returns on assets, net of price and pay increases. Use inter-valuation monitoring to give early warning. Employers to be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.

Risk	Control
Increased employer's contribution rate affects service delivery and admission/scheduled bodies.	Agree an explicit stabilisation mechanism, with other measures to limit sudden increases in contributions.
Orphaned employers create added fund costs.	Seek a cessation debt (or security/guarantor). Spread added costs among employers.

C3 Demographic risks

Risk	Control
Pensioners live longer, increasing fund costs.	Set mortality assumptions with allowances for future increases in life expectancy. Use the fund actuary's experience and access to over 50 LGPS funds to identify changes in life expectancy that might affect the longevity assumptions early.
As the fund matures, the proportion of actively contributing employees declines relative to retired employees.	Monitor at each valuation, consider seeking monetary amounts rather than % of pay. Consider alternative investment strategies.
Deteriorating patterns of early retirements	Charge employers the extra cost of non ill-health retirements following each individual decision. Monitor employer ill-health retirement experience, with optional insurance.
Reductions in payroll cause insufficient deficit recovery payments.	Review contributions between valuations. This may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Control
Changes to national pension requirements or HMRC rules.	Consider all Government consultation papers and comment where appropriate. Monitor progress on the McCloud court case and consider an interim valuation or other action once more information is known. Build preferred solutions into valuations as required.
Time, cost or reputational risks associated with any DLUHC intervention triggered by the Section 13 analysis (see Section 5).	Take advice from the actuary and consider the proposed valuation approach, relative to anticipated Section 13 analysis.
Changes to employer participation in LGPS funds leads to impacts on funding or investment strategies.	Consider all Government consultation papers and comment where appropriate. Take advice from the fund actuary and amend strategy.

C5 Governance risks

Risk	Control
The administering authority is not aware of employer membership changes, for example a large fall in employee members, large number of retirements, or is not advised that an employer is closed to new entrants.	The administering authority develops a close relationship with employing bodies and communicates required standards. The actuary may revise the rates and adjustments certificate to increase an employer's contributions between valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, heeded, or proves to be insufficient in some way	The administering authority maintains close contact with its advisers. Advice is delivered through formal meetings and recorded appropriately. Actuarial advice is subject to professional requirements like peer review.
The administering authority fails to commission the actuary to carry out a termination valuation for an admission body leaving the fund.	The administering authority requires employers with Best Value contractors to inform it of changes. CABs' memberships are monitored and steps are taken if active membership decreases.

Risk	Control
An employer ceases to exist with insufficient funding or bonds.	It's normally too late to manage this risk if left to the time of departure. This risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body. Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Requiring a bond to protect the fund, where permitted. Requiring a guarantor for new CABs. Regularly reviewing bond or guarantor arrangements. Reviewing contributions well ahead of cessation.
An employer ceases to exist, so an exit credit is payable.	The administering authority regularly monitors admission bodies coming up to cessation. The administering authority invests in liquid assets so that exit credits can be paid.

C6 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as TABs and CABs, have no local tax-raising powers. The fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

Type of employer	Assessment	Monitoring
Local Authorities	Tax-raising or government-backed, no individual assessment required	n/a
Colleges & Universities	No formal assessment currently undertaken. However, this is likely to be reviewed over period to 31 March 2025	n/a
Academies	Government-backed, covered by DfE guarantee in event of MAT failure	Check that DfE guarantee continues, after regular scheduled DfE review
Admission bodies (TABs & CABs)	Bonds or Council guarantee required as a condition of participating in the Fund	Bonds are monitored at PFC meetings

C7 Climate risk and TCFD reporting

The Fund has carried out climate scenario stress testing as part of their funding strategy considerations at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied.

The Fund is reviewing its Responsible Investment policy and its reporting requirements and is at the very early stages of establishing its framework around how the Fund quantify and manages climate related risks. However, the results from this initial modelling provide some comfort that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks.

We will evolve and update our modelling approach as appropriate once practice in this area becomes more established and our risk management framework becomes more developed.

The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

Appendix D – Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the fund aims to hold to meet the benefits earned to date. Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 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
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%
	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%
	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%
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%
	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%
	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%
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%
	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%
	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%
	Volatility (Disp) (5 yr)	2%	7%	6%	19%	30%	15%	26%	15%	6%	3%	4%	10%	3%	7%	4%	7%

		Inflation (RPI)	Inflation (CPI)	17 year real yield (CPI)	17 year yield
10 years	16th %'ile	2.4%	1.6%	-1.7%	1.1%
	50th %'ile	4.1%	3.3%	-0.5%	2.5%
	84th %'ile	5.7%	4.9%	0.7%	4.3%
20 years	16th %'ile	1.6%	1.2%	-0.7%	1.3%
	50th %'ile	3.1%	2.7%	1.1%	3.2%
	84th %'ile	4.7%	4.3%	2.7%	5.7%
40 years	16th %'ile	1.1%	0.9%	-0.6%	1.1%
	50th %'ile	2.4%	2.2%	1.3%	3.3%
	84th %'ile	3.9%	3.7%	3.2%	6.1%
	Volatility (Disp) (5 yr)	3%	3%		

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D3 What financial assumptions were used?

Future investment returns and discount rate

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except transferee admission bodies and closed community admission bodies	2.0%

Discount rate (for funding level calculation only)

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 4.6% applies. This is based on a prudent estimate of investment returns, specifically, that there is an 75% likelihood that the fund's assets will future investment returns of 4.6% over the 20 years following the 2022 valuation date.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to 1.0% above CPI pa plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions	
Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	50% of maximum tax-free cash
50:50 option	1.0% of members will choose the 50:50 option.

Rates for demographic assumptions

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.17	404.31	813.01	0	0	0	0
25	117	0.17	267.06	537.03	0	0	0	0
30	131	0.2	189.49	380.97	0	0	0	0
35	144	0.24	148.05	297.63	0.1	0.07	0.02	0.01
40	150	0.41	119.2	239.55	0.16	0.12	0.03	0.02
45	157	0.68	111.96	224.96	0.35	0.27	0.07	0.05
50	162	1.09	92.29	185.23	0.9	0.68	0.23	0.17
55	162	1.7	72.68	145.94	3.54	2.65	0.51	0.38
60	162	3.06	64.78	130.02	6.23	4.67	0.44	0.33
65	162	5.1	0	0	11.83	8.87	0	0

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.1	352.42	467.37	0	0	0	0
25	117	0.1	237.14	314.44	0.1	0.07	0.02	0.01
30	131	0.14	198.78	263.54	0.13	0.1	0.03	0.02
35	144	0.24	171.57	227.38	0.26	0.19	0.05	0.04
40	150	0.38	142.79	189.18	0.39	0.29	0.08	0.06
45	157	0.62	133.25	176.51	0.52	0.39	0.1	0.08
50	162	0.9	112.34	148.65	0.97	0.73	0.24	0.18
55	162	1.19	83.83	111.03	3.59	2.69	0.52	0.39
60	162	1.52	67.55	89.37	5.71	4.28	0.54	0.4
65	162	1.95	0	0	10.26	7.69	0	0

D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?

Low-risk exit basis

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

- The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin. This was 1.7% pa on 31 March 2022.
- The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
- Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

Contractor exit basis

Where there is a guarantor (e.g. in the case of contractors where the local authority guarantees the contractor's admission in the fund), the contractor exit basis will apply.

The financial and demographic assumptions underlying the contractor exit basis are equal to those set for calculating contributions rates. Specifically, the discount rate is set equal to the risk-free rate at the cessation date, plus a margin equal to that set to allocate assets to the employer on joining the fund.

Appendix E – Preface Document (this document supplemented our initial FSS consultation)

London Borough of Barnet Pension Fund
Funding Strategy Statement covering the period 1 April 2023 to 31 March 2026

This preface to our Funding Strategy Statement covering the period 1 April 2023 to 31 March 2026 sets out the specifics of the London Borough of Barnet Pension Fund and the key areas we have considered to inform our Funding Strategy. The preface is supported by a more detailed document prepared in collaboration with our advisors, which also includes links to important Fund policies.

E1. What is our overall objective?

1.1 Our overall objective is to ensure there are sufficient resources to meet pension benefits as they fall due.

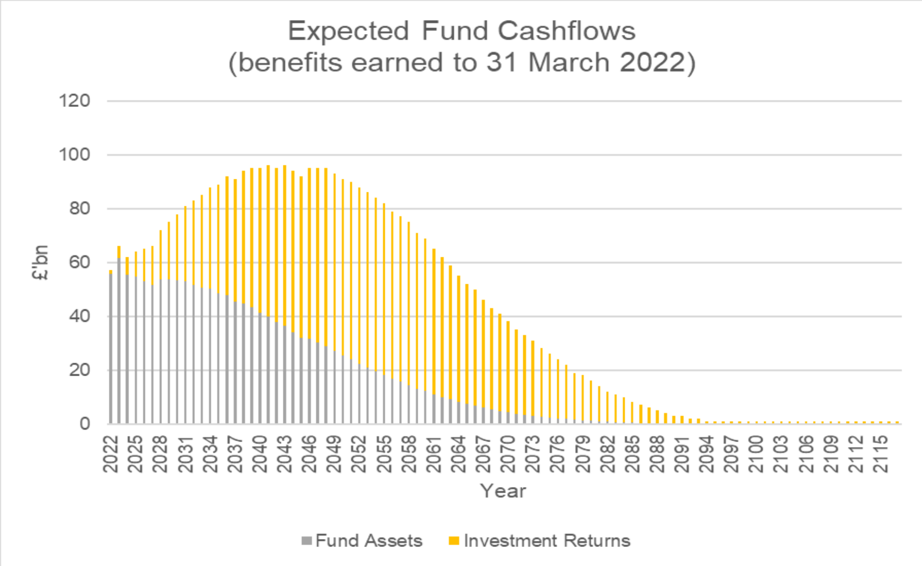
1.2 Our resources are:
- the assets we hold within the Pension Fund
- the return we may get on those assets in the future; and
- the ability for us to ask for contributions from our employer base in the future

1.3 A secondary condition is that we take risk in a measured way to ensure the overall efficiency and cost effectiveness of funding. Because we are taking risk, we need to manage those risks.

E2. How are we doing against our objectives?

2.1 At 31 March 2022, and at a "Whole of Fund" level, we had c£1.5bn of assets. The nominal (i.e. not discounted) value of the benefit payments promised to that date, based on Hyman's central view on long-term inflation, was c£4bn. This leaves c£2.5bn to be funded via investment returns or additional contributions.

2.2 The balance between how benefits earned to date are expected to be met through current assets and investment returns on those assets is illustrated below – as can be seen, the majority of benefits are expected to be met through investment returns (orange area), which is why focusing on investment returns is so important.



2.3 Our actuary has calculated that we would need to achieve an annual return of at least 4.7% to meet these payments without requiring further contributions from our employers. Our actuaries assess that the probability of achieving this level of return over the long-term is around 70%.

2.4 This implies that, whilst there is a positive likelihood that further money isn't required to fund benefits built up, there is a material probability that the current assets are not sufficient to cover the benefits already promised and that further contributions may be required. This indicates the level of risk being taken to fund our pension obligations.

2.5 After considering the provisional results of the 31 March 2022 valuation and experience over the inter-valuation period, we are currently comfortable with our funding progress and the level of overall risk we are taking at a "Whole of Fund" level. However, the position for employer groups is more nuanced.

2.6 An important consideration when thinking about our employer groups and overall risk appetite is the ability to request contributions in the future.

E3. Ability to request further contributions in the future

3.1 The ability for us to request contributions from employers in the future is a very important part of our overall risk management framework and funding strategy. This ability is constrained by the following two factors:

- The ability of the employer to flex its operating costs to allocate more resources towards the pension scheme if required - *For the majority of our employers this is limited without due notice (possibly a number of years). We also do not wish to negatively impact public service delivery because of increasing pension contributions*

- How confident we can be that the employer will be around in the very long-term to support the pension scheme - *For the majority of our employers we can be very confident about this, but for some employers, such as universities and colleges, we may need to take a more cautious view – not because we have any specific concerns around those* *employers within the Fund, but more reflecting the general uncertainty of any organisation who cannot guarantee future revenue streams*

E4. Taking investment risk

4.1 In general, we are required to invest in assets that do not provide a guaranteed return. This means that there is a risk that the asset performance is lower than that assumed by our actuaries to determining funding contributions.

4.2 A key part of our funding strategy is how we might manage periods where assets do underperform relative to our assumptions. In this situation, further contributions may be required.

4.3 There are two broad ways asset under performance can be managed:

- We use time to smooth out periods of underperformance. This approach assumes underperformance is followed by a ‘reversion’ to a norm through overperformance. This is risky because the position may not revert

- We set a higher funding target to reduce the probability of underfunding. This approach reduces our risk but is potentially inefficient as it may lead to too much capital being tied up in the pension scheme or the pension scheme becoming over funded. Depending on the time frame used to reach such a funding target, contribution requirements to get there may be, in themselves, unaffordable

4.4 For our tax raising bodies and for those with an underlying government guarantee and / or bond we would generally seek to use a mixture of time and controllable increases to cash contributions to manage periods of underperformance. This may be achieved by taking less prudence in the Funding Target and / or allowing a longer timeframe to recover deficits.

4.5 For our non-tax raising bodies it may not be appropriate to take less prudence and / or increase the time to recover deficits. From a risk management perspective, we therefore may want to reduce the likelihood of underperformance by seeking to move to a higher funding target gradually over time. We will be looking to consult with employers over the period until the 31 March 2025 valuation to consider how best to achieve this.

4.6 For completeness, we may also keep back additional reserves when performance has been better than expected to provide a further cushion against periods of underperformance and we will consider whether it would be appropriate to reduce cash on case-by-case basis.

E5. Can an LGPS request security?

5.1 Yes, to protect against the risk of an employer not being there in the future we may explore how additional security can allow us to adopt a less prudent funding target. However, additional security may help reduce an employer’s cash contributions, but it does not, in itself, reduce an employer’s risk unless the security embeds increased commercial certainty and / or is combined with a change in investment strategy.

E6. Experience since 31 March 2019

6.1 Our Funding Strategy will evolve over time and our experience over the last three years has, of course, informed our Funding Strategy for the period 1 April 2023 to 31 March 2026.

6.2 In terms of overall commentary, it is no understatement to say that the world has experienced significant change since the last valuation assessment at 31 March 2019. Covid-19 has had a dramatic impact on mortality rates as well as global markets, but we have also seen:

- the formalisation of Brexit, which has changed the UK's trading relationships which has caused some market uncertainty;
- a significant rise in interest rates as Central Banks try to control increasing inflation; and
- the emergence of a conflict in Ukraine and the shock to energy supplies that has followed

6.3 As a Pension Fund investing in risky assets, we are not immune to the impact of these factors: the one certainty we be sure of is that we are now facing greater uncertainty. We will be undertaking a full investment review in the Spring of 2023 and we are also evolving our Responsible Investment strategy and overall investment procedures to consider how we can be more nimble and flexible in our decision making.

6.4 Against this backdrop, the experience over the period 1 April 2019 to 31 March 2022 for Investment Returns, Inflation, Longevity and Data is summarised below:

Item	Experience	Commentary
Investment Returns	8.9% p.a. on average), compared to required return of 4.4% p.a.	Favourable investment returns have contributed to around £100m improvement in funding position over the valuation period. In context, over the inter valuation period, there was substantial support for capital markets via Central Banks quantitative easing programmes which, given the levels of inflation, is unlikely to continue. This could put pressure on capital values more generally from 2023 and is something we need to be mindful of as we conduct our investment review.

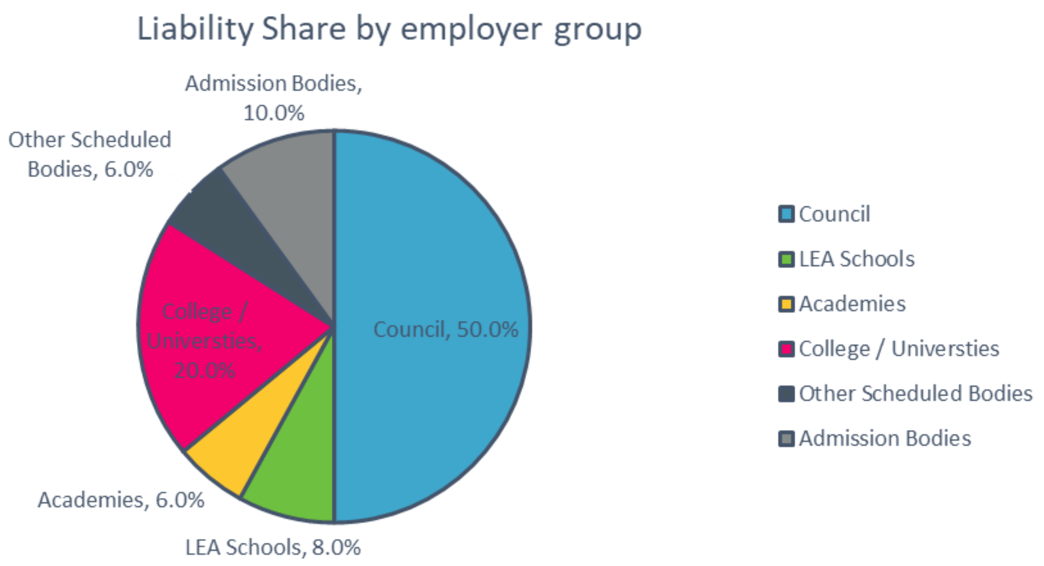
Item	Experience	Commentary
Inflation	5.4% over the period compared to 7.1% assumed	Inflation over the valuation period was around 2% lower than what was assumed at 31 March 2019. This has contributed to around a £30m gain in the overall funding position. However, the future outlook for inflation is very uncertain, with CPI increasing significantly since the 31 March 2022 valuation date. Looking forward, Hymans central estimate for future inflation is that CPI will average around 4% to 5% overr the next 5 years, then gradually reverting to the Bank of England's long-term target for inflation of c2%. Markets are pricing in a higher level of long-term inflation (at around 3.0% to 3.5%, so significantly higher than the Bank of England target). This difference is indicative of the level of future risk we face in relation to inflation. Allowing Hymans central estimate for future inflation increases liabilities by around £100m relative to the assumptions adopted in 2019. Allowing for market pricing for inflation would increase liabilities by a further c30% (£450m LBB analysis) relative to the assumptions adopted in 2019.
Mortality	Not analysed	Whilst the number of excess deaths increased dramatically in 2020 and 2021 due to the impact of Covid, these deaths were predominantly at older ages (80 years plus) and so, from a Pension Fund perspective, the financial impact has not been as material as some of the other issues discussed here, such as investment returns and inflation. The longer-term impact due to Covid is not known. On advice from our Actuary, we have actually marginally strengthened our longevity assumptions but will keep the position under review fort the 31 March 2025 valuation.
Data	£50m impact	There has been a process of rectifying data records since the last valuation after it was found that the overall level of record keeping was poor. There is a significant 'true-up' number of £50m to reflect the more up-to-date data used. Given the significance of this item we will be analysing the differences between the 2019 and 2022 data to understand where the main areas of differences are.

Areas of focus for 31 March 2022

E7. Employer Groups

7.1 The Barnet Pension Fund has a diverse range of employers, and a higher overall allocation to non-taxing raising bodies relative to most other LGPS funds.

7.2 A summary of the different employer groups at 31 March 2022 is provided below:



7.3 The average level of exposure to non-tax raising bodies for the LGPS in general is around 10% based on information provided in Aon's 2018 report on non-tax raising bodies. This means the Pension Fund has over double the level of exposure than that experienced more generally.

E8. Implications of maturing scheme

8.1 When the flow of new entrants towards a pension scheme slows it means that, overall, the average age of pension scheme members starts to increase and the 'duration' (i.e. time frame) of future cashflows starts to reduce.

8.2 A consequence of this is that the time horizon that risk can be comfortably taken reduces. This position is compounded if the Pension Fund cannot be 100% confidence in the ability of the employer to make contributions in the future – i.e. when there is a situation where the time horizon for paying benefit starts to shrink and the visibility for being able to rely on future pension contributions is limited, the sensible risk mitigating strategy is to plan to take less risk in the future.

8.3 This is reflected in the Fund's general policy of funding 'cessation' liabilities (i.e. liabilities without employer backing) on a "least risk" actuarial basis.

8.4 For the Council's obligations, this is not a concern, indeed the inflow of new members that are expected to arise out of the in-sourcing of certain contracts may increase the duration of obligations overall for Council – that said, depending on the contribution agreement following the 31 March 2022 valuation discussions, the Fund may switch to being a net dis-investor of assets as benefit outgo starts to exceed income.

E9. The Council

A summary of the approach funding approach adopted for each employer group in 31 March 2019 is provided below, together with a high-level summary of any proposed changes from 31 March 2023.

2019 approach

Funding Consideration	Comment
Funding target	Ultimate target consistent with probability of success of at least 75% based on long-term investment strategy (based on Hymans; proprietary ESS model)
Financial position relative to Funding Target	78%
Timeframe proposed to reach funding target	17 Years (assumes at least 70% probability of success)

Overall comment on Council Funding approach

9.1 Based on provisional results, the funding for the Council's share of obligations has progressed well. We are not seeking to amend the funding approach for the Council, apart from adjusting the timeframe for meeting the Funding Target to ensure overall stability of contribution rates.

E10. Other Scheduled Bodies (Tax Raising or wholly owned by the Council)

10.1 Funding approach was consistent with the Council's. Aggregate Funding for this group was 81% of target at 31 March 2019.

10.2 Based on provisional results, funding for other Scheduled Bodies has progressed well. We are not seeking to amend the funding approach for other Scheduled Bodies, apart from adjusting the timeframe for meeting the Funding Target to ensure overall stability of contribution rates.

E11. Academies

11.1 Funding approach was consistent with the Council's. Funding was 78% of target at 31 March 2019 across all academies. Academies obligations are ultimately underwritten by DfE which means we are comfortable taking a relatively long-term view for this employer group. That said, we still need to be mindful of stability, because it is responsible to do so and a requirement of the regulations.

11.2 Based on provisional results, funding for academies has progressed well. We are not seeking to amend the funding approach for academies at an aggregate level, however, note comment below which may impact individual academy contribution rates from 31 March 2023.

11.3 In 2019 contribution rates were set as the average across all academies. Whilst contributions were set as a common rate, asset and liabilities were not pooled. This means that some academies may have been over / under paying relative to their true cost. We believe this approach, whilst easier to administer, introduces risk of systematic under or over funding for some academies.

11.4 We will therefore be amending the approach so that each academy pays the contribution rate consistent with the liabilities and asset share. We will enter into discussions with academies where the change in contribution rate is more than 2% to discuss whether smoothing would be appropriate.

E12. Admitted Bodies

12.1 We take a range of approaches for Admitted Bodies, and these are documented within the respective admission agreements and other contractual documentation associated with each employer. Overall, Funding for Admitted Bodies has progressed well and we are not proposing a change to the overall approach. We are also not envisaging a significant change to contribution rates.

12.2 We have a number of relatively “small” employers joining the scheme with a handful of members (e.g. to service contracts for schools around catering) and the admission process is complex. Over the period to 2025 we will review the admission process to see whether it can be made simpler without prejudicing the overall security of the scheme materially.

12.3 The Council is looking to in-source a number of contracts over the next few years. All things being equal, this will increase our overall membership and pace at which the Fund grows. Whilst it may increase the overall duration of the Scheme, which is potentially positive from the perspective of us being able to take a long-term view on investments, it also potentially increases risk as the Pension Fund increases in size relative to the employer base.

E13. Universities / Colleges

2019 approach

Funding Consideration	Comment
Funding target	Ultimate target consistent with probability of success of 75% based on long-term investment strategy (based on Hymans; proprietary ESS model).
Financial position relative to Funding Target	94%
Timeframe proposed to reach funding target	15 Years (assumes 70% probability of success)

13.1 We note that the approach taken in 2019 for Universities and Colleges was not significantly different to the approach adopted for the Council (with the core difference being the timeframe to reach target set as 15 years rather than 17 years).

13.2 Given that the Universities / Colleges do not have the same level of long-term covenant visibility as the Council, the level of risk we are taking is, relatively, much higher. This is compounded given our relatively high exposure to these types of employers as a percentage of the overall Fund.

13.3 Of potential concern for the 2022 valuation is the level of long-term inflation risk we are exposed to, particularly given our advisors central view on long-term inflation, which is broadly in line with Bank of England long-term targets, but significantly different to that implied by market indicators.

13.4 We are also aware that steps have been taken by Middlesex University to provide alternative pension provision. This will significantly reduce the flow of new entrants into the Fund. Whilst this will slow the build-up of liabilities for this employer, which is positive from a risk management perspective, it does potentially accelerate the point at which we may need to start planning for cessation and accelerates the maturation of the Middlesex University section of the Fund.

13.5 As noted in Section 8. above, where the maturation of obligations happens, it is sensible to start to plan to take less risk. This is compounded when there is also a limited level of covenant visibility associated with the employer.

13.6 Because of this we will be seeking to switch the Funding Target for Middlesex University to a Least Risk funding basis. The timeframe and probability of success will depend on affordability, but provisionally we believe it would be appropriate to target a 15-year time horizon with at least a 60% probability of success.

13.7 For Barnet & Southgate College we will not be amending the Funding Approach for the 31 March 2022 valuation, but we will keep the situation under review pending the outcome of the Government's review of whether to provide an underlying government guarantee to Further Education pension liabilities.

E14. Supplementary Information

14.1 The attached document prepared in conjunction with our advisors sets out further details of:

- How employer contributions are calculated
- How assets and liabilities are calculated
- What happens when an employer joins the fund
- What happens when an employer leaves the fund
- What the statutory reporting requirements are

The document also provides further information on the:

- The regulatory framework around setting a Funding Strategy Statement
- Roles and responsibilities
- General risks and controls
- Actuarial assumptions

Appendix F – Addendum (information provided during consultation)

2022 Valuation

Consultation Update

Introduction of second test to validate contribution decreases

BARNET LONDON BOROUGH

Introduction

This paper sets out rationale for introducing a second test to validate whether contribution rates should reduce over the period 1 April 2023 to 31 March 2026.

There are several employer groups with different characteristics. This approach is not being applied to MDX, B&S and contractors.

There are also important technical, legislative and economic considerations relevant to the recommendation.

In summary:

- Using a time frame of c17 years and a probability of success of 70% within Hymans' Model suggests that contribution rates reduce for most employers.
- Playing in the observed reduction in long term real interest rates since 2019, commentary from the Scheme Advisory Board and a general requirement for stability we propose that a second test (test 2) is introduced which uses a slightly shorter timeframe of 15 years and probability of success of 80% - contributions will only decrease if they are assessed to do so under this second test..
- The combined result of Hymans' Model + test 2 is that for the majority of employers the contribution rate remains consistent with the 2019 rate.

The remainder of the paper consider the regulatory and economic context, more information on Hymans' modelling and an explanation of how Test 2 is applied.

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Legislative and 2019 context

Legislative and regulatory context

The LGPS 2013 regulations each LGPS Fund to put in place a Rates and Adjustment certificate prepared by an Actuary – this is the legal document that imposes a contribution requirement on employers.

CIPFA guidance requires the contribution rate to be prudent.

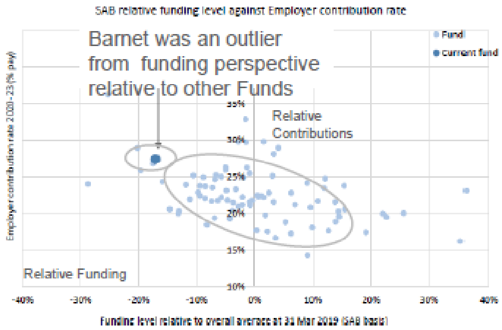
LGPS regulations require the method underpinning the rate to be stable.

The Government Actuaries Department ("GAD") undertake a triennial review of Funds to check for consistency and overall solvency. GAD will speak to funds where they believe there is a fundamental funding issue.

2019 Position

GAD's analysis of the 2019 valuation is shown in the chart to the right.

GAD's analysis shows that at the 2019 valuation, Barnet (the dark blue dot) was amongst least well funded funds (on GAD's standardised basis). GAD did not seek to speak to Barnet because Barnet were also paying amongst the highest contributions towards their fund.



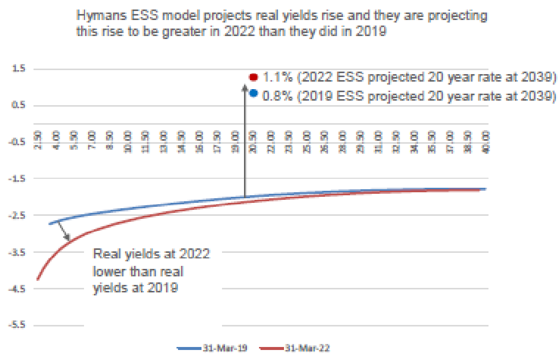
Source: GAD 2019 Section 13 analysis

We do not have information to confirm where Barnet sits relatively at 2022, however, whilst we may see some convergence towards the pack, Barnet is still likely to be a marginal outlier.

Economic and model context

Real Interest Rates

Long-term real interest rates are the primary driver for pension costs as they drive expectations around future investment returns. The real 'risk free' yield curve from market data at 2019 and 2022 is outlined below together with Hymans' Economic Scenario Service ("ESS") projection in 17 years time.



Source: LBB analysis / Hymans reports

The chart shows that real market interest rates (the **blue** (2019) line relative to the **red** (2022) lines) decreased over the three years. This is reflected in Hymans advice where they recommended discount rates as follows

Metric	2019	2022
Discount Rate	4.4%	4.6%
Inflation	2.3%	2.7%
Net rate	2.1%	1.9%

However, under Hymans' approach, the contribution rate is more influenced by the assumptions embedded within the ESS.

Hymans have increased the real Interest rates within the ESS (**Blue** dot to **Red** Dot) – i.e. a reversion to higher rate relative to market indicators.

In summary, this has led to Hymans' model indicating a reduction in contribution rates if we use a timeframe of 17 years and a probability of success (under the ESS model) of 70%.

Regulatory context and post valuation experience

Scheme Advisory Board (SAB) statement

Given economic headwinds' the SAB have cautioned against LGPS funds reducing contribution rates substantially. A link to the SAB's comment on this can be found here

Stability

It is a regulatory requirement that contribution rates are stable. To the extent contribution rates are reduced we will need to consider the ability for employers to be able to increase them again if required.

Post valuation experience

Inflation has turned out to be higher than anticipated at 31 March 2022 and investment markets are volatile. Whilst real interest rates have increased rapidly since the valuation it is too early to say how this might impact asset price growth over the long-term. Reflecting this, Hymans are cautious on funds seeking to reduce rates too heavily based on expectation at 31 March 2022.

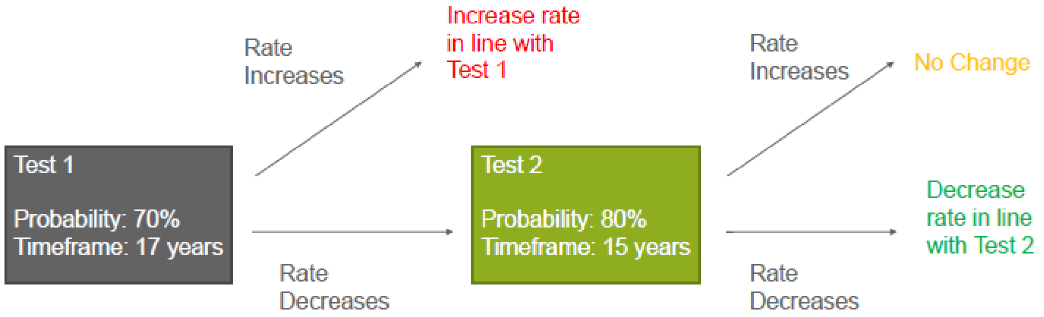
In recognition of this, we have worked with Hymans to develop a two stage process for validating whether contribution rates reduce – see next page

Two stage contribution rate test

As noted, Hymans' ESS model assumes an increase in long-term real interest rates and a higher increase relative to what was assumed in 2019. A consequence of this is that Hymans' model is generating lower contribution rates relative to 2019 for many employers.

Given general economic uncertainty around investment markets and high inflation expectations, reducing contribution rates at this time may not be prudent. After discussions with Hymans we therefore propose a two stage test to validate whether contribution rates should reduce. The second test replicates the first test, but assumes a shorter timeframe and increased probability of success – note this test is not used for MDX, B&S college or contractors.

The process is summarised below:



Important Note: Following discussions with the Fund Actuary Test 2 was not fully applied to the Council's rate. Instead, Officers "paid regard" to the output from Test 2 and increased the Test 1 contribution rate of 27.4% to 28.4% (from 28.9% payable before 1 April 2023).

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Pension Fund Committee

22 March 2023

Title	**Cessation of RE (Regional Enterprise) Limited as an employer**
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

Following the in-sourcing of services provided by RE (Regional Enterprise) Limited (“RE”) from 1 April 2023, the employment of c400 people will be TUPE’d back to the Council and RE’s admission within the Fund will be terminated.

This paper sets out the support we have been providing individuals impacted and the commercial issues related to the termination of RE as an employer.

Officers Recommendations

The Pension Fund Committee are recommended to:

1) Note the arrangements made in respect of the transfer in of RE employees, and.
2) Agree not to return any exit credit to RE (Regional Enterprise) Limited on termination.

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Background

1.1 Employees of RE (Regional Enterprise) Limited transfer back under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) from Capita to the Council on 1 April 2023.

1.2 These "Capita Re" employees are eligible for membership of the Barnet Pension Fund and will be auto enrolled into the Fund from the transfer date.

1.3 Capita Re employees fall into the three cohorts in relation to their pension:

- Employees who were already in the Barnet Pension Fund when the services were outsourced to Capita in 2013.
- Employees who have joined Capita since 2013 and have joined the pension arrangement offered by Capita.
- Employees who have joined Capita since 2013 but decided not to join the Capita pension arrangement.

1.4 The LBB Pensions Team have been supporting employees in all three cohorts and will continue to do so up to and after the transfer date, in relation to their pension provision.

1.5 In terms of work undertaken by the LBB Pensions Team, this falls into four workstreams, which are set out below:

Member Engagement

1.6 The LBB Pensions Team have carried out the following actions to assist Capita Re employees in relation to their pension arrangement:

1.6.1 Produced a short video providing Capita Re employees with a general overview of the LGPS/Barnet Pension Fund and the benefits of being a member of the Fund. This was posted on the intranet page set up for Capita Re employees transferring back to the Council.

1.6.2 Invited all Capita Re employees to webinars to discuss the LGPS in more detail. This included:

- details of the employee pension contribution rates that they will be required to pay in the Barnet Pension Fund
- their options on transferring their Capita pension into the Barnet Fund
- how their Barnet pension is calculated
- benefits payable on death in service

These webinars were attended by 180 Capita Re employees and one webinar has also been uploaded onto the Capita Re intranet page.

1.6.3 Offered Capita Re employees one-to-one meetings to discuss their individual pension options. At the time of writing, 25 Capita Re employees have taken advantage of this offer.

1.6.4 Updated the Capita Re intranet page with pensions related Q&As, which are updated regularly, if additional questions are asked by employees.

1.7 The Pensions Team have also kept the trade unions up to date with the above, so they can promote these events to their members.

Legal requirements

1.8 Under Regulation 64 of the 2013 LGPS Regulations the Fund Actuary must undertake a Cessation Valuation and assess the deficit (or surplus) at the point of termination. In addition, Clause 7.8 of RE's Admission Agreement provides that the Administering Authority will instruct the Actuary to make recommendations on the contributions necessary to meet outstanding liabilities at the point of termination.

1.9 The Actuary has made an initial assessment of the cessation position and, at the time of writing this paper, and, presuming market conditions do not change, there is likely to be surplus in the Fund relating to RE's share of obligations.

1.10 The Fund's policy on refunding surpluses on exit provides that no refund should be made where the Council effectively bears the risk relating to Pension participation. The wider commercial agreement between RE and the Council broadly indemnifies RE to variation in pension costs. Specifically, the commercial contract effectively indemnified RE from any deficit payment payable on termination.

1.11 Therefore, on termination, RE's share of Barnet Pension Fund assets and liabilities will effectively transfer back to the Council and no further contribution will be required from Capita Re and Officers recommend that no refund of surplus would be considered. In formulating their recommendation, Officers have sought the advice of both the Actuary and taken legal advice from Bevan Brittan.

1.12 The Fund's exit credit policy can be viewed here.

Data Requirements

1.13 The Pensions Team are working to ensure that the data provided by Capita for the employees who are TUPE'ing back to the Council is sufficient to ensure a smooth transition from 1 April in relation to their pension contribution deductions and with the pension fund administrators, West Yorkshire Pension Fund (WYPF).

1.14 This involves the following actions:

Employees already in the LGPS

1.15 The Pensions Team will work with WYPF on a data cleanse exercise for these members. Should there be any issues with the data, the Pensions Team will work with both WYPF and Capita Re payroll to ensure that the data is clean.

1.16 This exercise is to be completed by 31 March, so that data is accurate for when the transition occurs and for the cessation calculations.

1.17 On 1 April, WYPF will then update their administration system to show the new employer as "London Borough of Barnet".

Employees either in the Capita Scheme or not in a pensions arrangement

1.18 The Pensions Team have obtained data from HR of all employees who will be TUPE'ing back to the Council.

1.19 We are working with WYPF to check that the data provided is sufficient for them to set up member records on their pensions administration system.

1.20 We will also liaise with the Councils payroll provider to ensure a smooth transition for these members.

1.21 Again, this will be completed by 31 March.

Pension Costs for the Council

1.22 LGPS benefits are more costly than the pension provision provided via Capita's own pension scheme. This means that there will be an additional cost from bringing people back within Barnet in relation to pensions relative to the cost base within Capita

1.23 There may also be additional costs in relation to any ill-health and/or redundancy claims made after the transfer

1.24 On cessation, Capita Re's share of assets and liabilities will be brought into Barnet Council's "pool". Capita Re's share of liabilities is small relative to the Council's (around 4%) but they have a slightly higher contribution rate.

1.25 This means that, technically, the Council's rate should increase slightly following the transfer. However, and with the agreement of the actuary, we are planning to maintain the Council's contribution rate assessed at 31 March 2022 valuation as a combined rate.

2. REASONS FOR RECOMMENDATIONS

2.1 N/A – Report is for noting

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None necessary for this report.

4. POST DECISION IMPLEMENTATION

4.1 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 training courses from professional advisors carries advisory costs.

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 Legal requirements are set out above.

5.4.2 The Council's Constitution – Article 7 – sets out that the purpose of the Committee is to have responsibility for all aspects of the governance, investment and administration of the LB Barnet Pension fund.

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

	Pension Fund Committee **22 March 2023**
Title	**External Audit Update**
Report of	Executive Director of Strategy and Resources (S151 officer)
Wards	All
Status	Public
Urgent	No
Key	Non-Key
Enclosures	None
Officer Contact Details	Adam McPhail, Finance Manager, 0208 359 7639 adam.mcphail@barnet.gov.uk

Summary

BDO are the Pension Fund's appointed external auditors for the 2020/21 and 2021/22 financial years. In line with International Standard on Auditing 260 (ISA 260) the Pension Fund's external auditors, BDO, should be provided with access to those charged with governance. BDO will be attending the meeting. This report is to update the Pension Fund Committee on the 2020/21 audit, and on the plan for the 2021/22 audit.

Officers Recommendations

That the Pension Fund Committee note the update on the 2020/21 audit, and the plan for the 2021/22 audit, and to identify matters that the Committee wish to bring to the attention of the auditor.

1. Why this report is needed

1.1 Under Section 151 of the Local Government Act 1972 - "…every local authority shall make arrangements for the proper administration of their financial affairs…". Additionally, in accordance with International Standard on Auditing (ISA) 260, the external auditor is required to issue detailed reports on matters arising from the audit of the council's accounts and pension fund accounts.

1.2 **2020/21 External Audit Update**

1.2.1 In the January Pension Fund Committee meeting, officers advised the committee that the external auditors had advised that the fieldwork for the Pension Fund 2020/21 audit had been completed and was pending a review from the audit partner.

1.2.2 Since then officers have had no correspondence or queries from the audit partner regarding this review.

1.2.3 BDO were in attendance at the 1st March 2023 Local Pension Board, were they advised the board that the main cause of the delay in signing off the Pension Fund accounts was due to the national issue regarding accounting for infrastructure, which was affecting the sign off of the whole council accounts.

1.2.4 BDO also advised the board that the 2020/21 accounts are expected to be signed off in April 2023.

1.2.5 Officers expect the delays in the audit process to result in higher audit fees incurred by the fund.

1.2.6 BDO will be in attendance in this meeting.

1.3 **2021/22 External Audit Plan**

1.3.1 Due to the delays in completing the 2020/21 audit, BDO have advised that an audit plan report is not yet available.

1.3.2 The expected start date of the 2021/22 audit was November 2022, with an audit plan expected to be presented to the Pension Fund committee in the November meeting.

1.3.3 In the Local Pension Board meeting on 1st March 2023 BDO advised the board that a plan had been submitted to the council for a planned start date of the 2021/22 audit in the summer of 2023.

1.3.4 The draft 2021/22 accounts have been published. The deadline for the publication of the accounts is 30th September 2022.

2. Reasons for recommendations

2.1 It is appropriate for the Committee to be updated on the status of the 2020/21 audit, and have the opportunity to influence the testing undertaken by the auditor in the 2021/22.

3. Alternative options considered and not recommended

3.1 None- Statutory function.

4. Post decision implementation

4.1 None- The external auditor will report to the Committee following the conclusion of the audit.

5. IMPLICATIONS OF DECISION

5.1 **Corporate Priorities and Performance**

5.1.1 The current corporate plan (Barnet Plan 2023-2026) was adopted in February 2023. 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 & Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

5.2.1 This report sets out the framework for the assessment of the Pension Fund's financial reporting and management as well as value for money.

5.2.2 The external audit fees for 2021/22 are £35,789 (£36,170 for 2020/21).

5.2.3 In accordance with International Standard on Auditing (ISA) 260, the external auditor is required to issue detailed reports on matters arising from the audit of the Council's accounts and Pension Fund accounts.

5.2.4 The ISA 260 report must be considered by "those charged with governance" before the external auditor can sign the accounts".

5.3 **Social Value**

5.3.1 Arrangements for proper administration of financial affairs and 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 Committee's Terms of Reference include "review and consider approval of the Pension Fund Statement of Accounts".

5.5 **Risk Management**

5.5.1 The external audit ISA 260 report highlights areas of good control and areas of weakness which need to be addressed. Failure to do so carries the risk of adverse financial and/or reputational consequences.

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.

5.6.2 Ensuring the long-term financial health of the Pension Fund will benefit everyone who contributes to it. Access to and participation in the Pension Fund is open to those with and those without protected characteristics, alike, provided that the criteria set out within the relevant Regulations are met

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 in the context of this report

6. Environmental Impact

6.1 None in the context of this report.

7. Background Papers

7.1 None.

Report Clearance Checklist

(Removed prior to publication and retained by Governance Service)

Note: All reports must be cleared by the appropriate Committee Chair, Chief Officer, Legal, Finance and Governance as a minimum. Report authors should also engage with subject matter experts from other service areas where this is required (e.g. procurement, equalities, risk, etc.). The name and date that the chair or officer has cleared the report must be included in the table below or the report will not be accepted.

Legal, Finance and Governance require a minimum of 5 working days to provide report clearance. Clearance cannot be guaranteed for reports submitted outside of this time and your report is likely to be withdrawn from the agenda and deferred to the next scheduled meeting.

Author to complete table below:

Who	Clearance Date	Name
Chief Officer	**Anisa Darr**	**06/03/2023**
HB Public Law	**Sharon Clarke**	**11/03/2023**
Finance	**Anisa Darr**	**06/03/2023**
Governance	**Paul Frost**	**07/03/2023**

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Pension Fund Committee

22 March 2023

Title	**Barnet Council Pension Fund – Valuation, Transactions and Performance**
Report of	Executive Director of Strategy and Resources (S151 Officer)
Wards	N/A
Status	Public, with exempt appendix C
Urgent	No
Key	No
Enclosures	Appendix A - Asset Allocation as of 28 February 2023 Appendix B – Review of Investment Managers Performance for Q4, 2022 (Hymans Robertson) Appendix C – Review of Fund Managers (Hymans Robertson) for Q4, 2022 (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	Adam McPhail, Finance Manager- Pensions (adam.mcphail@barnet.gov.uk)

Summary

This report provides an update on investment valuations, transactions and performance to 28 February 2023 with an updated estimated valuation to 28 February 2023.

Officers Recommendations

That the Pension Fund Committee note the investment activities and performance of the Pension Fund to 28 February 2023.

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.

Market Overview and Fund Performance

1.2 Since December 2022 markets have continued to improve and this is reflected in the valuation increasing by approximately £32.0m (2.24% increase from December 2022). Investments in equities have performed particularly well since December, as have our USD denominated funds (notably Adams Street and IFM) due to the Pound weakening against the Dollar since December 2022.

1.3 Hymans Robertson have provided their report for Q4 2022 (appendix B), which gives an update on the overall market in the quarter to December 2022. The fund had a return of 3.1% over the quarter, which is 0.6% below benchmark.

1.4 The main drivers of absolute returns continue to be private equities and infrastructure.

1.5 The annual underperformance against benchmark is mainly due to the now disinvested Schroders Diversified Growth Fund (-17.1%) and the Barings Multi-Credit fund (-15.4%). The relatively new LCIV Sustainable Equity fund and Barings Global Special Situations Credit fund have also struggle in the year (-8.6% and -11.1% respectively). The maturing Partners 2015 Multi-Asset Credit funds has also produced negative returns (-11.7%), however we have been advised by Hymans that this negative return is due to an unusual for Direct Lending “Cash + Lending” benchmark.

Investment Manager Ratings

1.6 Hymans’ manager ratings are included within their quarterly report (appendix C, page 5). All the managers are rated either preferred or positive (the top two ranking) other than three mandates ranked as suitable, and one ranked as suitable- on watch, as highlighted in the report. The LCIV mandates are not rated by Hymans.

1.7 Hymans also award Responsible Investment ratings and all bar one is rated strong or good. The four London CIV mandates not rated.

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

The retirement of the CBRE IM CEO.

A vote to increase the maximum restriction limit on the investment in the Americas in the CBRE Global Alpha fund.

Hymans have no concerns over these updates.

Strategic Allocations

1.8 The Pension Fund Committee has agreed to a strategic allocation of Pension Fund Assets to particular asset types. The target percentages of these asset types can be found in the last column of Appendix 1.

1.9 Currently the fund is overweight in Equities (1.64%), Property (0.33%), and Cash (4.52%), whilst being underweight in Corporate Bonds (1.31%), and Illiquid Alternatives (5.18%).

1.10 In the January 2023 Pension Fund Committee meeting the Committee agreed to delegate the re-balancing of the pension funds assets to bring it more in line with the strategic allocation. Whilst there is a significant underweighting in Illiquid Alternatives, there are still funds of this asset type which continue to drawdown funds. As it is expected these drawdowns can be met with the overweight cash, officers do not feel there is a need to re-balance the pension funds assets.

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 The current corporate plan (Barnet Plan 2023-2026) was adopted in February 2023. 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 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 - Asset Allocation as of 28 February 2023

	Latest valuation date	30-Sep-22	Transactions	31-Dec-22	Transactions	28-Feb-22	31-Dec-22		Target Allocation	
		£'000	£'000	£'000	£'000	£'000	%	%	%	%
Equities								**51.64%**		**50.00**
LGIM Global		134,910	(36,000)	103,425		107,542	7.38%		0.00	
LGIM RAFI		186,785	(20,000)	184,348		193,035	13.24%		10.00	
LGIM Future Worlds		201,667	56,000	268,187		279,232	19.15%		25.00	
LCIV Emerging Markets		64,007		65,448		66,456	4.56%		5.00	
LCIV Sustainable Exclusion Equity		40,115		39,787		40,362	2.77%		5.00	
Adams Street Private Equity		61,721	9,656	66,055		66,363	4.55%		5.00	
Property								**6.33%**		**6.00**
Aberdeen Standard Long Lease	Aug-22	35,159		35,159		35,159	2.41%		2.00	
CBRE Global	Jan-23	31,190		28,768		28,941	1.98%		2.00	
Fiera Real Estate Opportunities	Mar-22	28,249		28,249		28,249	1.94%		2.00	
Diversified Growth								**0.00%**		**0.00**
Schroder	Jan-23	75,829	(75,829)	0		0	0.00%		0.00	
Multi Credit Liquid								**13.00%**		**13.00**
Baring Global High Yield		37,112		37,976		39,205	2.69%		3.50	
LCIV MAC		0	30,000	30,043	30,000	60,769	4.17%		3.50	
Insight Secured Finance	May-22	89,530		89,530		89,530	6.14%		6.00	
Corporate Bonds								**8.69%**		**10.00**
Schroder	May-22	126,710		126,710		126,710	8.69%		10.00	
Illiquid Alternatives								**15.82%**		**21.00**
Alcentra European Direct Lending	Jan-23	14,375		14,281		13,444	0.92%		1.50	
Partners Group		44,913	(534)	47,062	(801)	46,261	3.17%		5.50	
LCIV Private Debt		34,368	4,096	40,069	2,715	42,784	2.93%		4.00	
Barings Special Situations Debt		23,915		24,153		32,868	2.25%		2.00	
LCIV Renewables Infrastructure		14,386	1,278	15,390	849	16,238	1.11%		3.00	
IFM Global Infrastructure		85,168		78,558		79,026	5.42%		5.00	
Cash		54,961		102,905		65,914	4.52%	**4.52%**	0.00	**0.00**
Total		**1,385,070**	**(31,333)**	**1,426,103**	**32,763**	**1,458,088**	**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

Q4 2022 Investment Monitoring Report

Nick Jellema – Senior Investment Consultant
Yoel Deal – Investment Consultant
Tianna Patel – Investment Analyst
Jiazhe Lee – Investment Analyst

HYMANS ROBERTSON

Executive Summary

Fund assets totalled c.£1,432.4m at the end of Q4 2022, an increase of c.£39m from the end of the previous quarter.

The Fund's assets returned 3.1% (net of fees) over the quarter, underperforming the benchmark by c.0.6%.

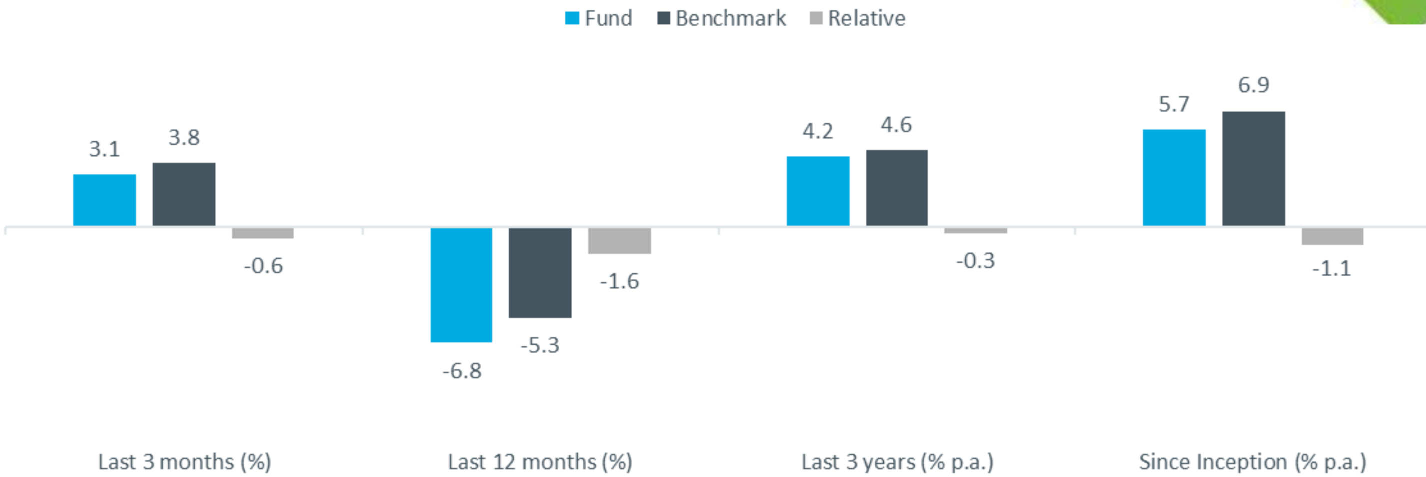
Key Actions

The following transitions took place over the quarter:

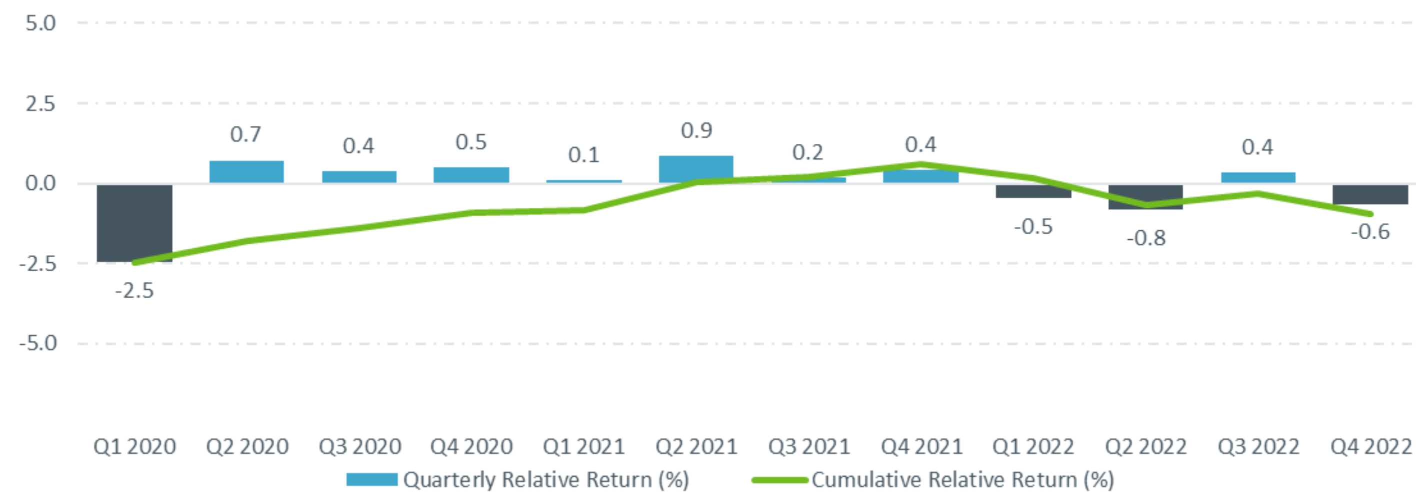
- An investment of c.£30m into the LCIV MAC fund.
- A divestment of c.£87m from the Schroders DGF fund.
- An Investment of c.£22m and c.£34m into the LGIM Future World Global Equity Index GBP Hedged and unhedged funds respectively – funded by an equal disinvestment from the LGIM RAFI Carbon Pathway Index fund and LGIM passive market-cap funds as part of the ongoing phased transition.

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

Historic quarterly performance (net of fees)



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



The Q4 22 valuation for Alcentra Direct Lending, Adams Street and Barings Global Special Situations are as at Q3 22, 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 (and overweight to the LGIM passive market-cap funds).

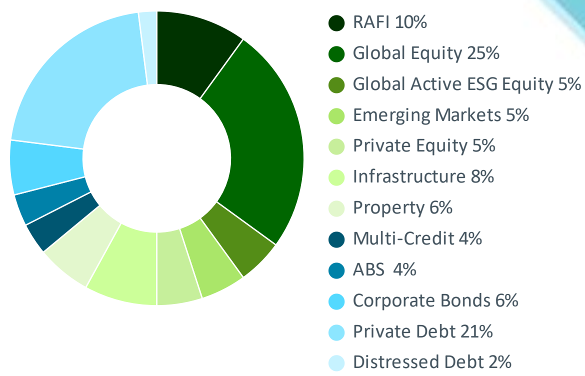
The Officers have developed a Cash management policy to address the high cash balance.

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

Asset allocation

Manager	Valuation (£m) Q3 2022	Valuation (£m) Q4 2022	Actual Proportion	Benchmark	Relative
LGIM RAFI Carbon Pathway Index GBP Hdgd	186.9	184.4	12.9%	10.0%	2.9%
LGIM Future World Global Equity Index	85.1	120.8	8.4%	10.0%	-1.6%
LGIM Future World Global Equity Index GBP Hdgd	116.7	147.5	10.3%	15.0%	-4.7%
LCIV Sustainable Exclusion Global Equity	40.1	39.8	2.8%	5.0%	-2.2%
LGIM UK Equity Index	6.3	5.2	0.4%	0.0%	7.2%
LGIM World ex UK Dev Equity Index	69.4	54.3	3.8%		
LGIM World ex UK Dev Equity Index GBP Hdgd	50.7	38.5	2.7%		
LGIM World Emerging Markets Equity Index	8.5	5.5	0.4%		
LCIV Emerging Markets Equity	64.0	65.4	4.6%	5.0%	-0.4%
Schroder Life Diversified Growth	86.2	0.0	0.0%	0.0%	0.0%
Adams Street 2019 Global	46.1	53.7	3.8%	5.0%	-0.6%
Adams Street Global Secondaries	7.0	9.9	0.7%		
Total Growth	**767.1**	**725.2**	**50.6%**	**50.0%**	**0.6%**
IFM Global Infrastructure	97.6	97.2	6.8%	5.0%	1.8%
LCIV Renewable Infrastructure	14.4	15.4	1.1%	3.0%	-1.9%
Standard Life Long Lease Property	34.1	28.4	2.0%	2.0%	0.0%
CBRE Global Alpha	35.1	32.9	2.3%	2.0%	0.3%
FREOF V	29.2	28.8	2.0%	2.0%	0.0%
Barings Multi-Credit	37.1	38.0	2.7%	3.5%	-0.8%
LCIV MAC	0.0	30.0	2.1%	3.5%	-1.4%
Insight Secured Finance	88.8	89.9	6.3%	6.0%	0.3%
Schroder All Maturities Corporate Bond	107.1	113.7	7.9%	10.0%	-2.1%
Alcentra Direct Lending	14.2	13.5	0.9%	1.5%	-0.6%
Partners Group MAC 2015	4.0	4.1	0.3%	0.0%	0.3%
Partners Group MAC 2017	13.6	13.5	0.9%	3.0%	-2.1%
Partners Group MAC V	28.9	29.7	2.1%	2.5%	-0.4%
LCIV Private Debt	34.4	40.1	2.8%	4.0%	-1.2%
Barings Global Special Situations Credit	33.0	33.0	2.3%	2.0%	0.3%
Total Income	**571.7**	**608.2**	**42.5%**	**50.0%**	**-7.5%**
Cash	54.8	99.0	6.9%	0.0%	6.9%
Total Fund	**1,393.6**	**1,432.4**	**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	10.3	10.2	**0.1**	-5.0	-5.4	**0.5**	5.8	5.7	**0.1**	7.6	7.6	**0.0**
LGIM World ex UK Dev Equity Index	2.0	2.0	**0.0**	-8.0	-8.0	**0.0**	8.9	8.9	**0.0**	11.0	11.0	**0.0**
LGIM World ex UK Dev Equity Index GBP Hdgd	7.0	7.1	**0.0**	-17.5	-17.4	**-0.1**	5.1	5.2	**-0.1**	6.5	6.6	**-0.1**
LGIM Future World Global Equity Index	1.8	1.8	**0.1**	-9.2	-9.3	**0.1**	n/a	n/a	**n/a**	3.3	3.1	**0.2**
LGIM Future World Global Equity Index GBP Hdgd	6.4	6.3	**0.2**	-17.1	-17.2	**0.1**	n/a	n/a	**n/a**	-2.5	-2.7	**0.2**
LCIV Emerging Markets Equity	2.3	1.8	**0.5**	-9.5	-10.0	**0.6**	3.0	0.5	**2.5**	4.4	2.2	**2.2**
LCIV Sustainable Exclusion Global Equity	-0.8	1.9	**-2.6**	-15.7	-7.8	**-8.6**	n/a	n/a	**n/a**	-2.0	2.2	**-4.1**
Schroder Life Diversified Growth	0.4	0.9	**-0.4**	-11.7	6.6	**-17.1**	0.8	7.7	**-6.3**	3.3	7.5	**-3.9**
Adams Street 2019 Global	4.4	2.5	**1.9**	19.3	0.2	**19.1**	84.1	12.0	**64.4**	84.1	12.0	**64.4**
Income												
IFM Global Infrastructure	-0.4	1.9	**-2.3**	19.6	8.0	**10.7**	11.9	8.0	**3.6**	14.0	8.0	**5.5**
LCIV Renewable Infrastructure	4.8	1.7	**3.0**	24.8	7.0	**16.6**	n/a	n/a	**n/a**	19.3	7.0	**11.5**
Standard Life Long Lease Property	-16.8	2.3	**-18.7**	-14.7	-21.8	**9.1**	-0.1	-5.8	**6.1**	0.8	-3.9	**4.8**
CBRE Global Alpha	-6.8	2.2	**-8.8**	9.7	9.0	**0.7**	5.7	9.0	**-3.0**	5.7	9.0	**-3.0**
FREOF V	0.0	2.9	**-2.8**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	3.3	8.9	**-5.1**
Barings Multi-Credit	2.3	1.6	**0.7**	-10.5	5.8	**-15.4**	-0.8	5.5	**-6.0**	2.7	5.6	**-2.7**
Insight Secured Finance	1.1	1.7	**-0.6**	-0.5	5.4	**-5.6**	1.6	4.6	**-2.9**	2.7	4.7	**-1.9**
Schroder All Maturities Corporate Bond	6.4	6.2	**0.2**	-20.0	-17.8	**-2.8**	-4.6	-4.9	**0.3**	3.6	3.3	**0.3**
Alcentra Direct Lending	0.6	1.7	**-1.1**	5.1	7.0	**-1.8**	3.9	7.0	**-2.9**	5.7	7.0	**-1.2**
Partners Group MAC 2015	1.6	1.7	**-0.1**	-6.9	5.4	**-11.7**	1.0	5.3	**-4.1**	6.4	5.2	**1.1**
Partners Group MAC 2017	4.2	1.7	**2.5**	5.9	5.4	**0.4**	4.6	5.3	**-0.7**	4.6	5.2	**-0.6**
Partners Group MAC V	2.8	1.7	**1.1**	2.7	5.4	**-2.6**	3.7	5.3	**-1.6**	4.6	5.2	**-0.6**
LCIV Private Debt	4.2	1.5	**2.7**	11.7	6.0	**5.4**	n/a	n/a	**n/a**	12.5	6.0	**6.2**
LCIV MAC	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	0.2	1.4	**-1.1**
Barings Global Special Situations Credit	1.2	3.3	**-2.1**	1.1	13.8	**-11.1**	n/a	n/a	**n/a**	14.4	13.8	**0.6**
Total	**3.1**	**3.8**	**-0.6**	**-6.8**	**-5.3**	**-1.6**	**4.2**	**4.6**	**-0.3**	**5.7**	**6.9**	**-1.1**

The Q4 22 performance for Alcentra Direct Lending and ASP, are as at Q3 22, 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, Adams Street Partners Global Secondaries, LCIV Renewable Infrastructure, LCIV Private Debt, IFM Global Infrastructure and Barings Global Special Situations Credit mandates. As such these may differ to the managers' net IRRs. The Schroders DGF performance over the quarter uses partial performance due to the disinvestment.

Source: Fund performance provided by Investment Managers and is net of fees. Benchmark performance provided by Investment Managers and DataStream. Please note the Fund has a substantial amount of transitions activity over the quarter, which was a period of heightened market volatility. Reasonable endeavours have been made to ensure the performance data is accurate. However, there may be a lower level of accuracy in the performance data, as a result of this significant increase in transition activity.

Q4 growth outturns surprised to the upside as US labour and consumer demand remains resilient while the economic impact of potential European gas shortages abated more recently. Despite more recent upwards revisions for some economies, global growth forecasts for 2023 fell over the quarter, as high inflation and tighter monetary policy weigh on the outlook.

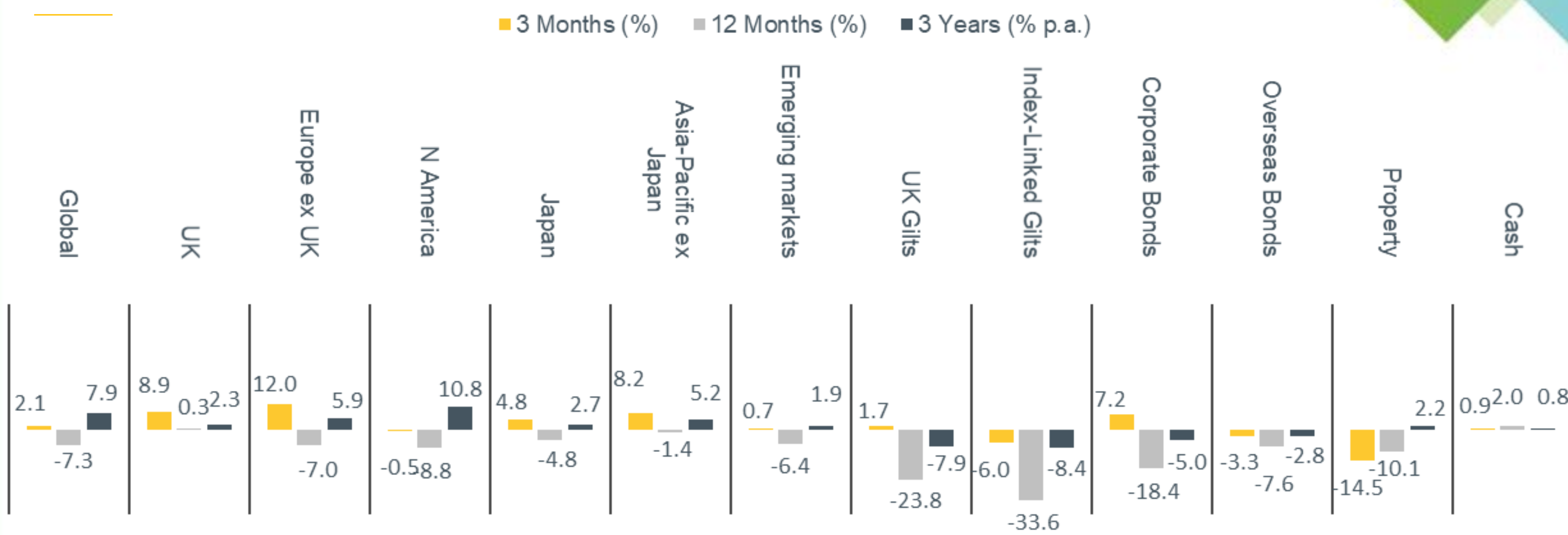
Downside CPI surprises, support the idea that inflation peaked in Europe and the US. Year-on-year headline CPI inflation fell to 7.1%, 10.7%, and 10.1% in the US, UK, and Eurozone, respectively, in November.

After a round of 0.75% p.a. interest rate rises, major central banks shifted down to smaller 0.5% p.a. increases in December. The 1.25% p.a. of rate rises delivered by each of the major central banks in Q4 takes policy rates in the US, UK, and Eurozone to 4.5% p.a., 3.5% p.a., and 2.0% p.a., respectively.

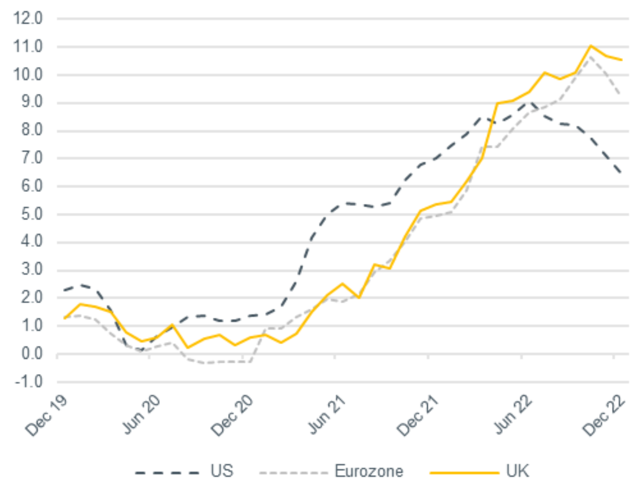
UK 10-year yields ended the period at 3.7% p.a., 0.5% p.a. below end-September levels. Equivalent US yields rose 0.1% p.a., to 3.9% p.a., and German yields rose 0.5% p.a., to 2.6% p.a., respectively. Japanese yields rose 0.2% p.a., to 0.4% p.a., as the Bank of Japan loosened the target range for 10-year yields under its yield curve control policy.

UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, fell 0.6% p.a. to 3.4% p.a. Equivalent US implied inflation rose 0.1% p.a., to 2.3% p.a.

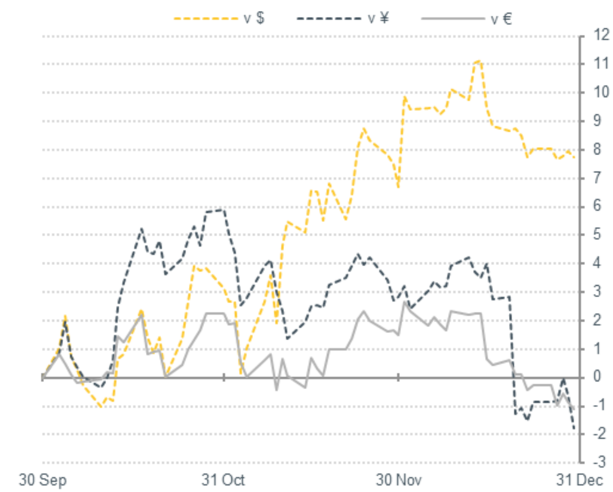
Historic returns for world markets [1]



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, ICE BofA Global Government Index, MSCI UK Monthly Property; UK Interbank 7 Day

Market Background

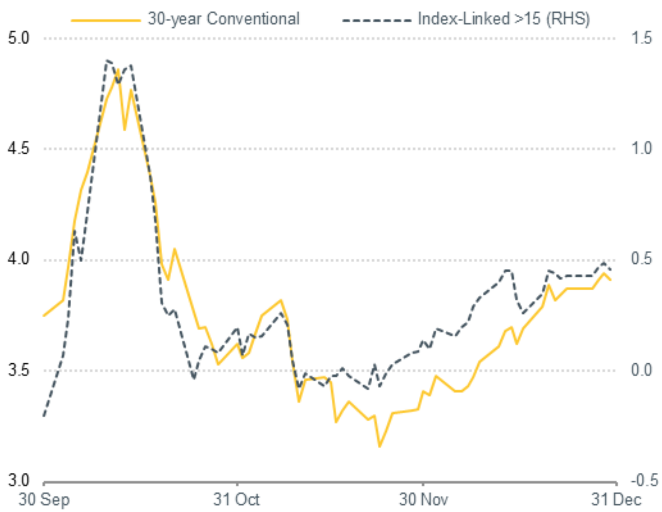
Global investment grade credit spreads fell 0.3% p.a., to 1.5% p.a., while speculative-grade spreads fell 1.0% p.a., to 5.1% p.a. Speculative-grade default rates have risen a little since the start of 2022 but remain below long-term average levels.

The FTSE All World Total Return Index rose 7.6% (local currency) .The energy sector outperformed amid record earnings reports, as did Industrials and basic materials. Consumer discretionary and technology stocks underperformed as the cost-of-living squeeze intensified. Europe ex-UK outperformed the most while Japan notably underperformed on the back of yen strength and doubts over ongoing monetary support from the Bank of Japan.

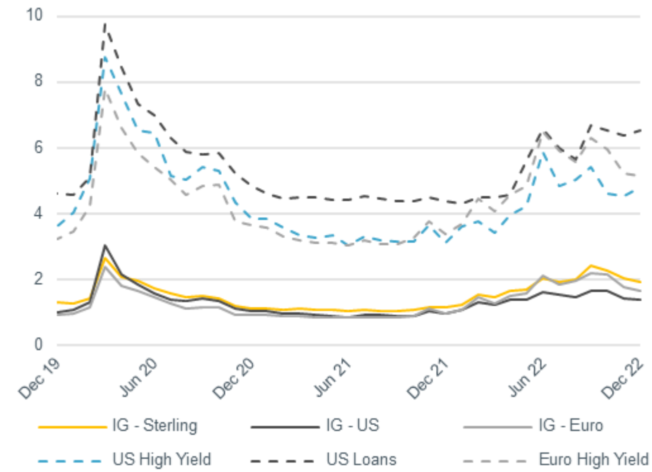
Easing inflation in the US saw the US dollar fall 4.8% in trade-weighted terms, reducing its year-to-date gains to 6.3%. Equivalent sterling, euro, and yen measures rose 1.9%, 4.4%, and 5.2%, respectively.

MSCI UK Monthly Property Index declines slowed from falling 0.5% in November to falling 0.03% in December. The extent of recent declines in capital values, which are now 20% below their June peak, has been the primary driver. Capital values have fallen across the 3 main commercial sectors but have been most notable in the industrial sector, where they have fallen 27% since the end of June.

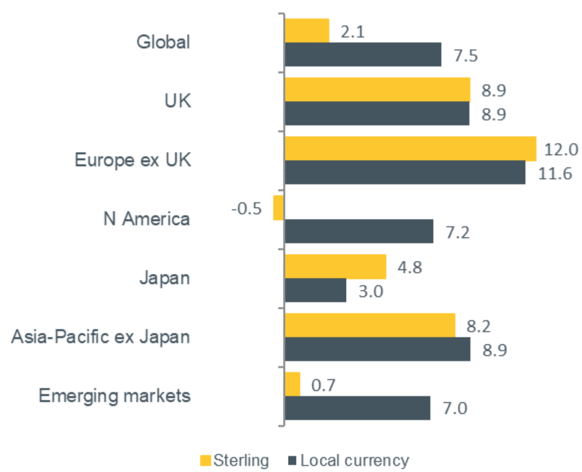
Gilt yields chart (% p.a.)



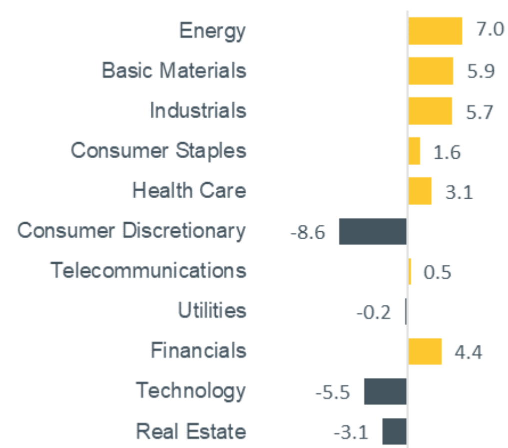
Investment and speculative grade credit spreads (% p.a.)



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.

Hymans Rating

Preferred	Our highest rated managers in each asset class. These should be the strategies we are willing to put forward for new searches.
Positive	We believe there is a strong chance that the strategy will achieve its objectives, but there is some element that holds us back from providing the product with the highest rating.
Suitable	We believe the strategy is suitable for pension scheme investors. We have done sufficient due diligence to assess its compliance with the requirements of pension scheme investors but do not have a strong view on the investment capability. The strategy would not be put forward for new searches based on investment merits alone.
Negative	The strategy is not suitable for continued or future investment and alternatives should be explored.
Not Rated	Insufficient knowledge or due diligence to be able to form an opinion.

Responsible Investment

Strong	Strong evidence of good RI practices across all criteria and practices are consistently applied.
Good	Reasonable evidence of good RI practices across all criteria and practices are consistently applied.
Adequate	Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently.
Weak	Little to no evidence of good RI practices.
Not Rated	Insufficient knowledge to be able to form an opinion on.

Pension Fund Committee

22nd March 2023

Title	**Investment Strategy and Manager Appointments**
Report of	Executive Director of Strategy and Resources (S151 Officer)
Wards	N/A
Status	Public
Urgent	No
Key	Non-key
Enclosures	Appendix 1- Summary of Outstanding Transactions Appendix 2- Strategy Review Briefing Paper
Officer Contact Details	Adam McPhail, Finance Manager- Pensions adam.mcphail@barnet.gov.uk – 0208 359 7639

Summary

This report provides a summary of the investment transactions made in the first 2 months of 2023, and an overview of the planned investment transactions in 2023.

Officers Recommendations

1. **The Pension Fund Committee note the investment transactions that have occurred so far in 2023, and the further planned transactions for 2023.**

1. Why this report is needed

1.1 Acting in its capacity as Administering Authority to the Barnet Pension Fund, it is the responsibility of London Borough of Barnet to ensure that the Pension Fund complies with legislation and effectively manages the Fund's financial affairs.

1.2 The matters covered in this paper are:

- Investment transactions that have occurred in 2023
- The planned further investment transactions in 2023

1.3 **Investment Transactions in 2022**

1.3.1 Below is a summary of the investments made by the Pension Fund in the first 2 months of 2023:

Fund Name	**Amount Invested**
LCIV Renewable Infrastructure	£0.849m
LCIV Private Debt	£2.715
LCIV Multi-Asset Credit	£30.000m
Total	**£33.564m**

1.3.2 Below is a summary of the disinvestments the Pension Fund Made in the first 2 months of 2023 (please note these are automatic disinvestments from funds reaching maturity):

Fund Name	**Amount Disinvested**
Partners Group 2015 Fund	£0.267
Partners Group 2017 Fund	£0.534
Total	**£0.801**

1.4 **Planned Investment Transactions for 2023**

1.4.1 The Pension Fund has a number of investments where the commitments have not been fully drawn. Whilst fund managers do not provide a detailed schedule as to the scale and timings of the remaining drawdowns, it is expected that the majority of these funds will be invested during 2023.

1.4.2 The Pension Fund also has a new investment into LCIV Global ESG Bonds (agreed at December 2021 meeting), with a commitment of £60m.

1.4.3 At the January 2023 Pension Fund Committee meeting, the committee agreed to use both Allianz and Pemberton Trade Finance Funds as a more effective way to manage long term cash holdings. Whilst these funds are still in the application process, it is expected that cash will be deposited into these funds before April 2023.

1.4.4 In order to fund these new investments, the Pension Fund is also expected to make a variety of disinvestments from a number of funds. The timing of these disinvestments will depend on the timing of the drawdowns mentioned above, as a result it is expected that the majority of these disinvestments will occur in 2023.

1.4.5 Appendix 1 shows a summary of these outstanding transactions, with expected timings, methods, drivers, and funding sources.

1.5 **Strategy Review**

1.5.1 Due to the change in the economic environment, officers will be undertaking a review of the current investment strategy. More details around this can be found in the Strategy Review Briefing Paper (appendix 2).

2. Reasons for recommendations

2.1 The LGPS (Management and Investment of Funds) Regulations 2016 (Regulation 7(7)) requires the Committee to periodically (at least every three years) review and if necessary, revise the investment strategy.

3. Alternative options considered and not recommended

3.1 None

4. Post decision implementation

4.1 Delegation is requested to officers to implement the agreed actions.

5. Implications of decision

5.1 **Corporate Priorities and Performance**

5.1.1 The current corporate plan (Barnet Plan 2023-2026) was adopted in February 2023. 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 & Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

5.2.1 There are no direct resources issues for the council 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 **Legal and Constitutional References**

5.3.1 The LGPS (Management and Investment of Funds) Regulations 2016 (Regulation 7(7)) requires the Committee to periodically (at least every three years) to review and if necessary, revise the investment strategy.

5.3.2 The Council's Constitution – Article 7 – includes within the responsibilities of the Pension Fund Committee, (1) the approval of the Investment Strategy Statement and to act in accordance with its principles and (2) the appointment of investment managers. This paper considers alterations to the asset allocation set out in the ISS.

5.4 **Insight**

5.4.1 N/A

5.5 **Social Value**

5.5.1 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.

5.5.2 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.

5.5.3 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.

5.5.4 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.

5.6 **Risk Management**

5.6.1 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.

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

5.7 **Equalities and Diversity**

5.7.1 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.

5.8 **Corporate Parenting**

5.8.1 Not applicable in the context of this report.

5.9 **Consultation and Engagement**

5.9.1 Not applicable.

6. Environmental Impact

6.1 The paper and appendices discuss investments into assets which are deemed as Responsible Investments.

7. Background papers

7.1 All recent Committee meetings have included an agenda item on investment strategy.

Report Clearance Checklist

(Removed prior to publication and retained by Governance Service)

Note: All reports must be cleared by the appropriate Committee Chair, Chief Officer, Legal, Finance and Governance as a minimum. Report authors should also engage with subject matter experts from other service areas where this is required (e.g. procurement, equalities, risk, etc.). The name and date that the chair or officer has cleared the report must be included in the table below or the report will not be accepted.

Legal, Finance and Governance require a minimum of 5 working days to provide report clearance. Clearance cannot be guaranteed for reports submitted outside of this time and your report is likely to be withdrawn from the agenda and deferred to the next scheduled meeting.

Author to complete table below:

Who	Clearance Date	Name
Chief Officer	**06/03/2023**	**Anisa Darr**
HB Public Law	**08/03/2023**	**Sharon Clarke**
Finance	**06/03/2023**	**Anisa Darr**
Governance	**07/03/2023**	**Paul Frost**

Fund	Dis-investment*	Investment*		Timing	Method	Primary Driver	Source of Funding
LGIM - WORLD	150			Over a two year period to March 2023	Automatic	ESG	
LGIM -RAFI	55			Over a two year period from Summer 2021	Automatic	ESG	
LGIM - Future Worlds		175		Over a two year period to March 2023	Automatic	ESG	LGIM World & RAFI
LCIV - Sustainable Equity		30		Pending	Manual	ESG	LGIM World & RAFI (?)
Barings - Special Credit		4		Expect by end of January 2023	Manual - when called	Strategy	Cash
Adams Street - Private Eq		57		Expect by end of January 2024	Over next 18-months	Strategy	Cash
LCIV - Renewable Inf		27		Expect by end of January 2024	Manual - when called	Strategy	Cash
LCIV - Private debt		22		Expect by end of January 2024	Manual	Strategy	Cash
LCIV - Global ESG Bond		60		Pending	Manual	ESG	Schroders Corp Bonds
Schroder - Corp Bonds	60			Pending	Manual	ESG	
Total	**265**	**375**					
Shortfall (disinvestments less investments)			- 110				
Cash at bank			67				
Balance (i.e. unfunded transitions)			- 43				

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Investment Strategic Review

Over the course of the next 3 – 6 months Officers will be undertaking a Strategic Investment review. Context is that yields have increased significantly meaning that we may be able to reduce risk substantially for a given level of return. This paper explains more background on this and how it links to our wider strategic aims

What is a "strategic review"?

A strategic review considers what proportion the Fund should invest in different asset classes (e.g. percentage in Equities versus percentage in Bonds). This is the most important aspect of strategic decision making for the Fund – typically the percentage held in different asset classes has a bigger impact than the impact a specific fund manager has in delivering a particular mandate.

This exercise will require us to take advice from Hymans as our investment consultants. We will also work with the Fund Actuary to ensure that any change in approach does not negatively impact funding requirements.

What is the current Strategic Allocation

The current strategic asset allocation is summarised below.

Asset class	Category	Current strategy
Global Equities	Growth	40.00%
Emerging Market Equities	Growth	5.00%
Private Equity	Growth	6.00%
Property	Income	5.00%
Infrastructure	Income	8.00%
Corporate bonds	Income	10.00%
Asset backed securities	Income	6.00%
Private Debt	Income	13.00%
MAC	Income	7.00%

Overall, the strategy is 50% in Growth assets and 50% in income assets. We will need to conduct analysis with Hymans, however, given current market conditions, we may expect to increase our proportion to income assets, which may also be appropriate where a Fund is maturing and becoming Cash Flow negative (i.e. benefit outgo starts to exceed contribution income).

Why are we undertaking a strategic review now?

There are broadly two reasons why we are undertaking a strategic review now:

1. Change in market conditions

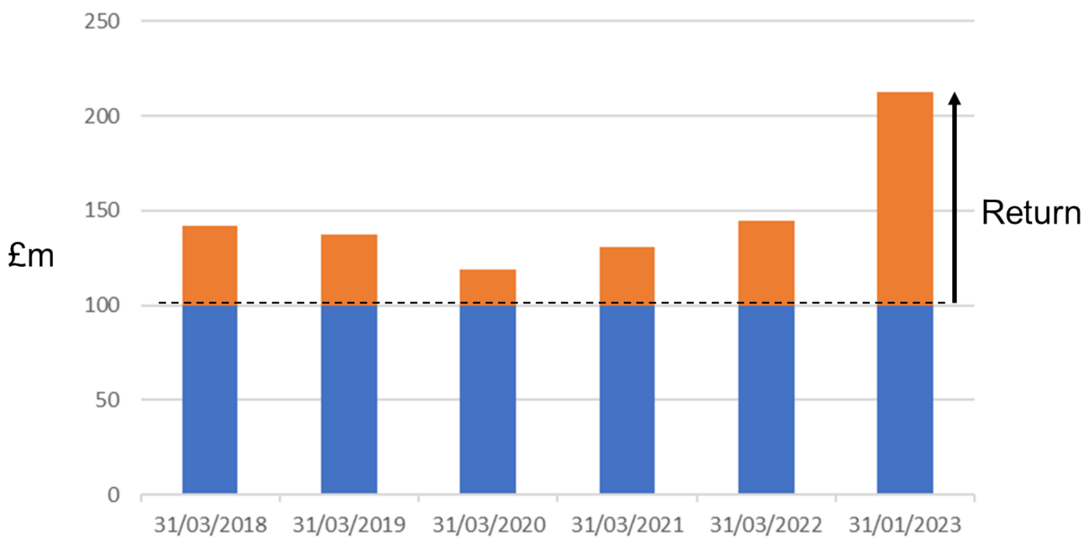
Our strategy has evolved over the years from a more fundamental strategic review undertaken in around 2018. The current strategy has been successful in improving the funding of the Fund, particularly in an environment where short and long-term bond yields were very low. The economic environment is now very different relative to what it was in 2018 and there are opportunities for us to significantly reduce our future investment risk, but also headwinds we need to be mindful of in terms of the robustness of capital values in a Qualitative Tightening and high interest rate environment and where we have inflationary pressures.

A comparison of risk free yields over the period 1 April 2018 and 31 January 2023 are summarised below

	31/03/2018	31/03/2019	31/03/2020	31/03/2021	31/03/2022	31/01/2023
20-year gilt yield	1.76%	1.60%	0.86%	1.35%	1.86%	3.84%

In terms of considering the level of return these differing yields general, the chart below illustrates the level of risk-free return (represented by the orange bar) on £100m invested over a timeframe of 20 years. It can be seen that the level of risk-free return available has increased substantially (with the return being around 2.5 –5x the level it has been over the last five years)

Fig 1 – Risk Free return on £100m invested



Valuation

It is usual to conduct a strategic investment review following a valuation as this means the investment consultants can work with up-to-date funding approach and data.

Scope of review

The review will consider the following:

- What our current level of risk / return is within the Fund from a strategic allocation perspective
- What Barnet's priorities are around taking risk within the pension fund – e.g. would we be comfortable reducing risk?
- Applying a different strategic allocation to Middlesex (c20% of our Fund)
- Simplify / reduce number of mandates we hold longer-term

We will also review the likely strategic direction we will want to take and identify where there are gaps against London CIV's offering. Where there are gaps we will engage with London CIV and other Funds to see how we can support London CIV expand its offerings to accommodate our strategy.

Using the review to further develop BarNetZero strategy

We are clear that our Fiduciary duty and overall risk / return management framework is the starting point for our strategy, but once we have established our preferred strategy we will want to see what Funds are available that support a pathway to a NetZero strategy by 2030 (or as soon as subsequent to that date). We will then assess the relative risk / return characteristics of these specific funds. This will do two things:

1) Establish a proxy BarNetZero 2030 strategy (which we can use to frame conversations around)
2) Drive decisions on the appropriateness of moving to Net Zero funds without compromising risk

Timeline

Proposal around Strategic Allocation to be brought to 4 July 2023 PFC meeting. Our priority will be to work with Middlesex University to establish a low-risk strategy for their obligations, particularly given their wider commitments and increase in contribution levels.

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Pension Fund Committee

22 March 2023

Title	**London CIV update**
Report of	Executive Director of Strategy and Resources (S151 officer)
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A - London CIV Presentation
Officer Contact Details	David Spreckley, Head of Pensions and Treasury, 020 8359 6264

Summary

London CIV is the Fund's Investment Pooling partner. A successful London CIV will provide efficiencies and cost benefits to Barnet and the people of London and Barnet is looking to develop and strengthen its relationship with the London CIV.

London CIV has a new CEO, Dean Bowden who will make a presentation to the Committee (presentation attached as Appendix A). This paper provides some additional context for information.

Officers Recommendations

The Pension Fund Committee are invited to note this report.

1.1 London LGPS CIV Ltd ('London CIV') was established in 2015 and is the pooling partner for London Boroughs. London CIV is one of eight U.K. LGPS asset pooling companies. Barnet Council is one of London CIV's 32 Shareholders.

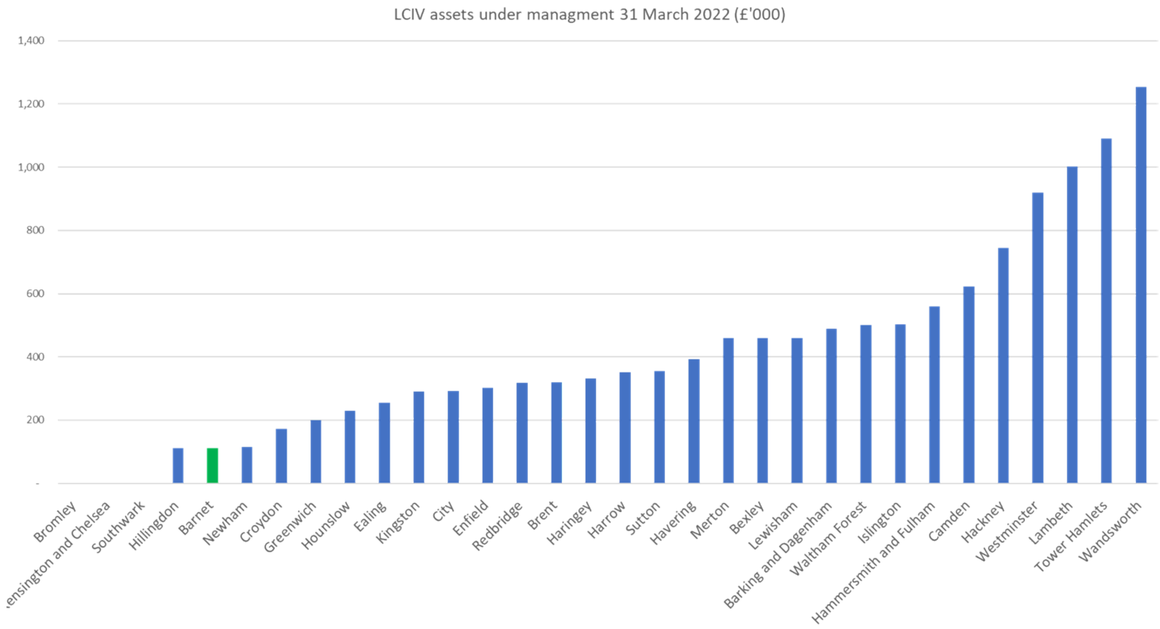
Barnet's Funds held with London CIV

1.2 Barnet currently has funds invested in the following London CIV funds:

Fund	Approx investment (Q1 2023)
LCIV Emerging Markets	£65m
LCIV Sustainable Exclusion Equity*	£40m
LCIV Private Debt*	£45m
LCIV MAC	£60m
LCIV Renewable Infrastructure*	£15m

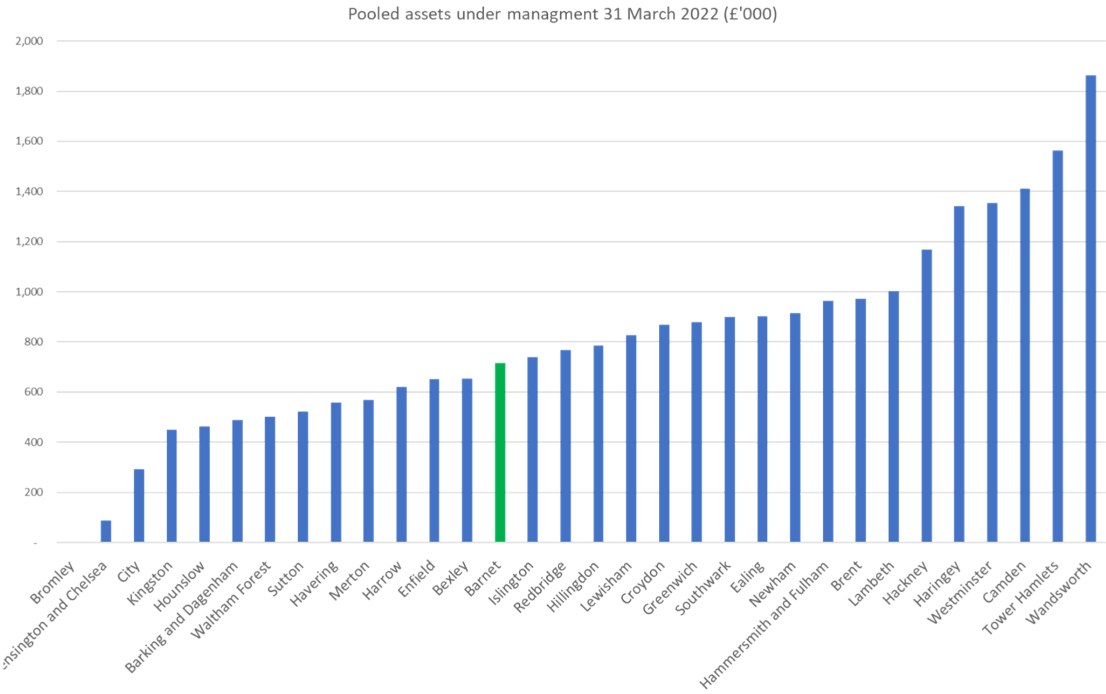
*Further capital committed

1.3 A summary of how Barnet's pooling status with London CIV compares with other London Boroughs is summarised below (measured at 31 March 2022):



1.4 Note that whilst Barnet's commitments to London CIV is low relative to other boroughs (as at 31 March 2022), Barnet's commitments to pooled investment vehicles is more in line with other boroughs (note that Barnet's passive equity allocations are held in pooled funds with LGIM).

1.5 A summary of Barnet's pooling status relative to other London Boroughs is summarised on the next page (measured at 31 March 2022):



New London CIV CEO

1.6 On November 2022 Dean Bowden was appointed as the new CEO of London CIV in succession to Mike O'Donnell, the previous CEO. Dean's background is working in financial services (asset management and broader investment and savings industry).

1.7 In February, the Pensions Team hosted Dean Bowden in Barnet, where we visited the RAF Museum, Colindate, Middlesex University campus and Hendon Town Hall and discussed how we could collaborate further with the London CIV.

Barnet's Commitment to London CIV

1.8 There are reports that one other London Borough is seeking to leave the London CIV.

1.9 Barnet Officers are committed to working with London CIV and can see the wider benefits of making London CIV a success, both for Barnet and the people of London.

1.10 Therefore, through the strategic investment review we will seek to work closely with the London CIV so that they are fully aware of our objectives and so that we can identify any gaps relative to Barnet's future strategic direction.

1.11 It will be important for the London CIV to be nimble and work at pace as any delay in implementing a new investment strategy could jeopardise the benefits of taking forward that strategy – e.g. if bond yields move significantly.

1.12 The London CIV provides very valuable and rich support to Barnet's recent Responsible Investment Day and are focused on expanding their services in this area.

1.13 The London CIV hold monthly Business Updates. All Committee members are encouraged to join these as they are generally very interesting and provide an important channel to communicate on their funds (previous updates are recorded and can be viewed by accessing the London CIV portal).

Future Direction of Pooling

1.14 The requirement for LGPS funds to pool was introduced in 2015. The government is expected to consult on expanding the requirements of pooling this year. Officers will update the Committee on any developments when any consultation is published.

2. REASONS FOR RECOMMENDATIONS

2.1 N/A – Report is for noting

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None necessary for this report.

4. POST DECISION IMPLEMENTATION

4.1 Consideration of London CIV funds will be made when an investment strategy decision is being made.

5. IMPLICATIONS OF DECISION

5.1 **Corporate Priorities and Performance**

5.1.1 Supporting the London CIV and having a more influential voice should provide longer term efficiencies and opportunities for Barnet.

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

5.2.1 None for this report.

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

London CIV

Working together to secure a sustainable future

London Borough of Barnet Pension Fund Committee Meeting

22 March 2023

Presenters

Dean Bowden
Chief Executive Officer

Agenda

London CIV

01 London CIV Strategic Direction

02 Stewardship

03 Net Zero Roadmap

04 Appendix

01. London CIV Strategic Direction

London CIV Update/Strategic Direction

London CIV

- Dean Bowden appointed CEO from November 2022.
- Strategic review of whole business in flight, focusing on;

  - **Maturity** – London CIV must be its ‘best self’ in terms of efficiency and quality of output
  - **Relevance** - Proposition that offers the products and services clients require
  - **Purpose** – An unabridged focus on the core principles of pooling, cost and performance
  - **ESG** – Enhanced services and support for clients in the pursuit of Net Zero

- Desire for collaboration and cooperation from all clients and shareholders, to leverage the collective knowledge and buying power across London.
- A true partnership of trust and respect between clients and London CIV, not an arms-length transactional approach.

02. Stewardship

London CIV

Stewardship – London CIV's Role in Engagement

London CIV

Engagement

London CIV

Managers | **EOS Engagement** | **External Initiatives**

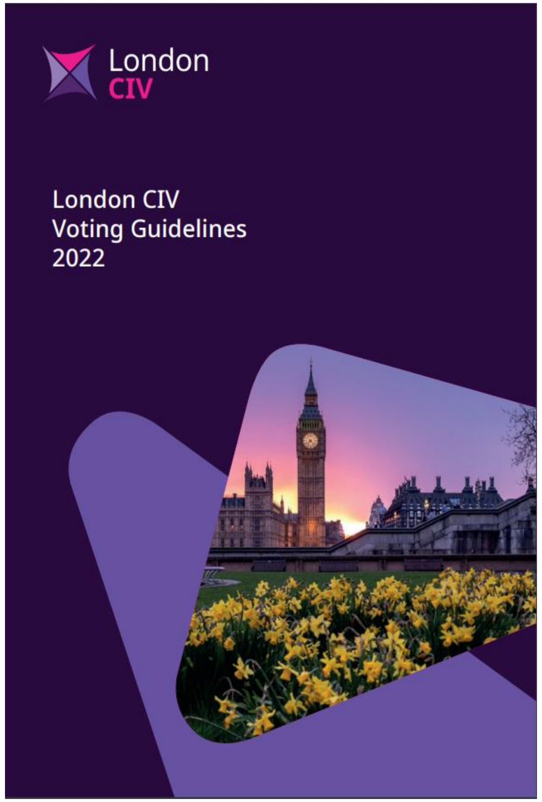
Portfolio companies

Federated Hermes · Pensions for Purpose · Investor Alliance for Human Rights · ShareAction» · Climate Action 100+ Global Investors Driving Business Transition · TCFD Task Force on Climate-Related Financial Disclosures

Barking & Dagenham · Barnet · Bexley · Brent · Bromley · Camden · Croydon · City of London · Ealing · Enfield · Royal Greenwich · Hackney · h&f · Haringey · Harrow Council · Havering · Hillingdon · London Borough of Hounslow · Islington · Kensington and Chelsea · Kingston upon Thames · Lambeth · Lewisham · Merton · Newham London · Redbridge · Richmond upon Thames · Southwark Council · Sutton · Tower Hamlets · Waltham Forest · Wandsworth · City of Westminster

Stewardship – London CIV's Role in Voting

London CIV



- LAPFF Guidelines
- Best Practice Voting
- EOS Voting Guidelines
- London CIV Investment Beliefs
- London CIV Priority Themes

1st layer: London CIV Voting Guidelines

2nd layer: EOS Voting Guidelines

EOS Votes

Assurance: London CIV Reviews

Our escalation strategy

London CIV

Engagement

Apply pressure to our investment managers, EOS and collaborate with external groups.

Voting

Vote against directors, vote for shareholder proposals

Co-filing

We may seek to co-file for shareholder proposals to escalate concerns

Public statement

Or support NGO or media campaigns

Barking & Dagenham, Barnet, Bexley, Brent, Bromley, Camden, Croydon, City of London, Ealing, Enfield, Royal Greenwich, Hackney, h&f, Haringey, Harrow, Havering, Hillingdon, London Borough of Hounslow, Islington, Kensington and Chelsea, Kingston upon Thames, Lambeth, Lewisham, Merton, Newham London, Redbridge, Richmond upon Thames, Southwark, Sutton, Tower Hamlets, Waltham Forest, Wandsworth, City of Westminster

Responsible Investment & Engagement Programme: Key Priorities

03. Net Zero Road Map

On the course to Net-Zero

London CIV

London CIV considers that the design of investment products, ESG data analytics and stewardship activities should be mutually reinforcing

Mandate Design Considerations

1. ESG integration in investment process
2. **Support companies and assets which support transition to a low-carbon economy**
3. Net Zero Commitment
4. Fossil fuel exclusions
5. Carbon Intensity reduction requirements

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Stewardship

1. Hermes EOS
2. Fund managers
3. Industry Initiatives (Climate Action 100+, LAPFF)

- Stewardship policy (Priorities, Process, Escalation)
- Setting objectives and tracking progress
- Issuer coverage and frequency of engagements

Climate Impact

Climate Datasets

Backward-looking ← → ***Forward-looking***

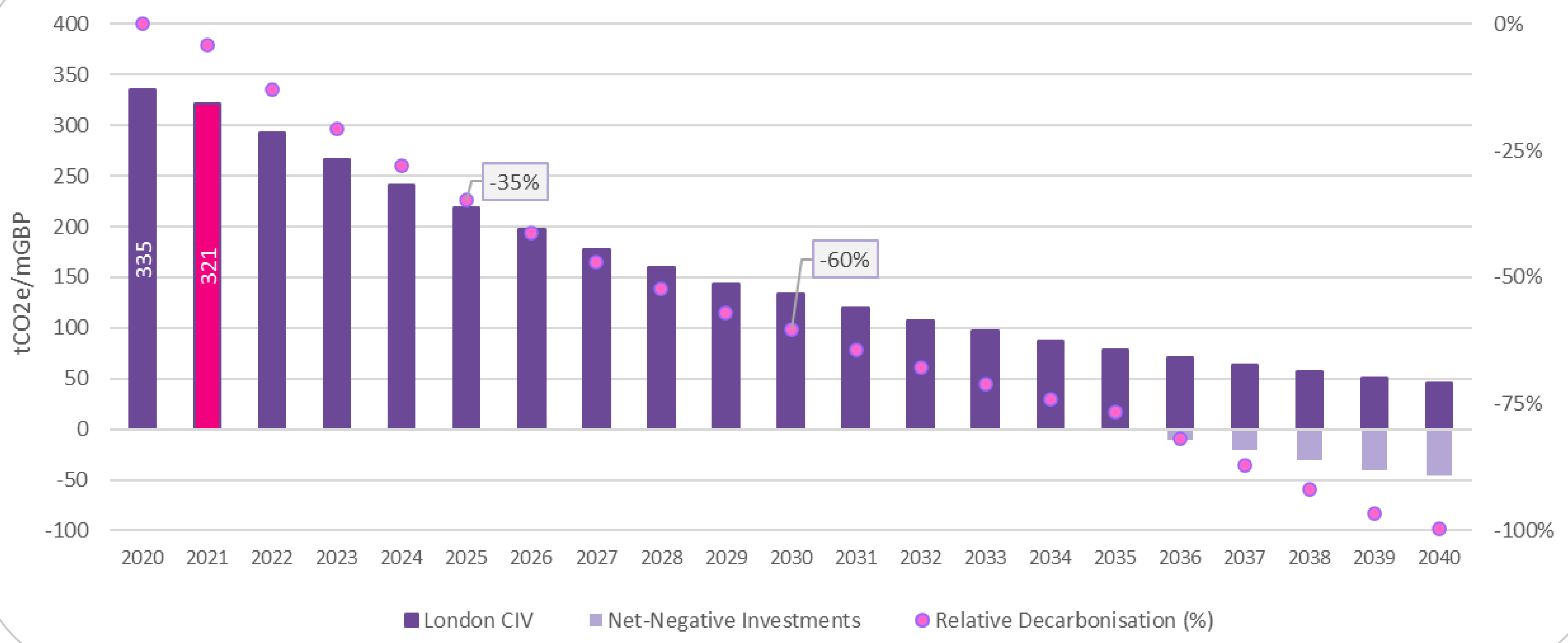
Fossil Fuel Exposure | CAPEX | Patents | SBTi Targets | Scenario Analysis

Carbon Footprint | Green Revenues | Future Emissions | Implied Temperature Rise

On the course to Net-Zero

London CIV

We plan to achieve our goals by decarbonising existing funds through targeted engagement, contributing to avoided emissions, launching Low-Carbon and Paris-Aligned funds and eventually contributing to negative emissions.



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Source: London CIV 31 Dec 2021. This data is for illustrative purposes only.

04. Appendix

Fund Range and Assets under Management 31 January 2023

London CIV

LONDON CIV

	Authorised Contractual Scheme (ACS) (Public Markets) **Total £13.1bn**									Exempt Unauthorised Unit Trust (EUUT) (Private Markets) **Total £2.1bn*/£1.1bn****		Scottish Limited Partnership (SLP) (Private Markets) **Total £195m*/£78m****
	Global Equities									**Infrastructure**		**Private Markets**
Fund	LCIV Global Alpha Growth Fund	LCIV Global Alpha Growth Paris Aligned Fund	LCIV Global Equity Fund	LCIV Global Equity Quality Fund	LCIV Global Equity Focus Fund	LCIV Emerging Market Equity Fund	LCIV Sustainable Equity Fund	LCIV Sustainable Equity Exclusion Fund	LCIV Passive Equity Progressive Paris Aligned Fund	LCIV Infrastructure Fund	LCIV Renewable Infrastructure Fund	The London Fund
AUM	**£963m**	**£2,279m**	**£581m**	**£552m**	**£1,083m**	**£606m**	**£1,276m**	**£571m**	**£544m**	**£399m*/£260m****	**£854m*/£269m****	**£195m*/£78m****
Launch Date	11 Apr 2016	13 Apr 2021	22 May 2017	21 Aug 2020	17 Jul 2017	11 Jan 2018	18 Apr 2018	11 Mar 2020	01 Dec 2021	31 Oct 2019	29 Mar 2021	15 Dec 2020
Manager	Baillie Gifford	Baillie Gifford	Newton	MSIM	Longview	JP Morgan	RBC	RBC	State Street	Stepstone (who selected funds run by MIRA, Arcus, Equitix, Basalt, Igneo, Capital Dynamics, Brookfield and Meridiam)	London CIV (who selected funds run by BlackRock, Quinbrook, Stonepeak and Foresight)	LPPI (who selected funds run by Yoo Capital, DREAM and GSAM)
No. of Investors	4	11	3	2	6	8	8	4	2	6	13	2

	Multi Asset				**Fixed Income**			**Private Debt**	**Property**	**Property**
Fund	LCIV Global Total Return Fund	LCIV Diversified Growth Fund	LCIV Absolute Return Fund	LCIV Real Return Fund	LCIV Global Bond Fund	LCIV MAC Fund	LCIV Alternative Credit Fund	LCIV Private Debt Fund	LCIV Real Estate Long Income Fund	LCIV UK Housing Fund (operationally ready)
AUM	**£211m**	**£810m**	**£1,127m**	**£174m**	**£669m**	**£1,247m**	**£378m**	**£625m*/£388m****	**£213m*/£213m****	
Launch Date	17 Jun 2016	15 Feb 2016	21 Jun 2016	16 Dec 2016	30 Nov 2018	31 May 2018	31 Jan 2022	29 Mar 2021	11 Jun 2020	March 2023
Manager	Pyrford	Baillie Gifford	Ruffer	Newton	PIMCO	CQS and PIMCO	CQS	London CIV (who selected funds run by Churchill and Pemberton)	Aviva	TBC
No. of Investors	3	9	10	2	8	13	3	8	3	1

ACS AUM **£13.1bn**

EUUT and SLP **amounts drawn** **£1.2bn**

EUUT and SLP **amounts committed** **£2.3bn**

AUM pooled with Blackrock and LGIM **£12.4bn**

Total Pooled AUM **£26.7bn**

*Denotes committed amount **Denotes drawn amount

Source: Northern Trust

ACS and PM Funds data is at 31 January 2023

Funds highlighted in green indicate an ESG and Responsible Investment focus.

Funds highlighted in blue indicate those with broader social objectives including ESG. Dotted line indicates a future fund launch, expected in March 2023.

DISCLAIMER

London CIV

Important information

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London CIV Fourth Floor,

22 Lavington Steet, London, SE1 0NZ

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2023135

Pension Fund Committee

22 March 2023

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	Mark Fox, Pensions Manager - 0208 359 3341

Summary

It is important that the Pension Fund Committee has appropriate training opportunities for it to fulfil its duties.

This paper summarises the actions that will be taken by the LBB Pensions Team to keep records of any training that the Committee.

Officers Recommendations

The Pension Fund Committee are invited to note this report.

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 the 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. However, members of the Local Pensions Board have 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.

1.4 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.

1.5 It is important that both members of the Pension Fund Committee and Local Pension Board have access to sufficient training opportunities so that they can meet their duties.

1.6 To deliver on this priority we have identified 'mandatory' training – this is training that we expect Local Pension Board members to undertake to enable them to perform their duties and 'recommended' training, which will further develop Committee members' skills.

1.7 The mandatory and primary training opportunities available to Board and Committee members are set out in Appendix A.

1.8 The Committee are invited to note the training options available and endeavour to undertake the recommended training. This will also include substitute members of the Committee.

1.9 The LBB Pensions Team proposes that all training is logged to demonstrate that the Local Pensions Board is meeting regulatory requirements and the Pension Fund Committee are keeping their pensions knowledge up to date and relevant.

1.10 The LBB Pensions Team intend to contact all members of the Board and the Pension Fund Committee monthly, so the training log can be kept up to date and monitored.

Record of training undertaken on LOLA platform

1.11 The table on the following page summarises the training undertaken by Committee Members via Hymans' LOLA training platform as at 1 March 2023:

Committee Member	Course Name	Course Enrolment Status	Course First Access Date	Course Last Access Date
Anne Hutton	Module 3 - Administration & Fund Management	Completed	18/10/2022 15:44	18/10/2022 17:54
Anne Hutton	Module 6 - Current Issues	In Progress	25/10/2022 18:13	27/01/2023 22:07
Anne Hutton	Module 5 - Investments	Completed	02/09/2022 20:38	27/01/2023 18:02
Anne Hutton	Module 4 - Funding and Actuarial Matters	Completed	24/10/2022 16:03	01/11/2022 11:05
Anne Hutton	Module 2 - LGPS Governance & Oversight Bodies	Completed	22/08/2022 15:11	22/08/2022 16:52
Anne Hutton	Module 1 - An introduction to the LGPS	Completed	15/08/2022 15:08	25/10/2022 18:12
Andreas Ioannidis	Module 3 - Administration & Fund Management	Subscribed		
Andreas Ioannidis	Module 4 - Funding and Actuarial Matters	Subscribed		
Andreas Ioannidis	Module 6 - Current Issues	Subscribed		
Andreas Ioannidis	Module 5 - Investments	Subscribed		
Andreas Ioannidis	Module 1 - An introduction to the LGPS	Completed	24/12/2022 14:01	31/01/2023 19:28
Andreas Ioannidis	Module 2 - LGPS Governance & Oversight Bodies	In Progress	01/01/2023 01:07	05/01/2023 00:38
Danny Rich	Module 1 - An introduction to the LGPS	Completed	30/01/2023 09:45	30/01/2023 10:26
Danny Rich	Module 2 - LGPS Governance & Oversight Bodies	Completed	30/01/2023 10:26	30/01/2023 11:33
Danny Rich	Module 4 - Funding and Actuarial Matters	Completed	30/01/2023 18:53	30/01/2023 20:14
Danny Rich	Module 5 - Investments	Completed	31/01/2023 06:52	31/01/2023 16:20
Danny Rich	Module 6 - Current Issues	Subscribed		
Danny Rich	Module 3 - Administration & Fund Management	Completed	30/01/2023 11:34	30/01/2023 18:53
Elliot Simberg	Module 2 - LGPS Governance & Oversight Bodies	Subscribed		
Elliot Simberg	Module 1 - An introduction to the LGPS	Subscribed		
Elliot Simberg	Module 4 - Funding and Actuarial Matters	Subscribed		
Elliot Simberg	Module 3 - Administration & Fund Management	Subscribed		
Elliot Simberg	Module 5 - Investments	Subscribed		
Elliot Simberg	Module 6 - Current Issues	Subscribed		
Michael Mire	Module 3 - Administration & Fund Management	Subscribed		
Michael Mire	Module 4 - Funding and Actuarial Matters	Subscribed		
Michael Mire	Module 5 - Investments	Subscribed		
Michael Mire	Module 1 - An introduction to the LGPS	In Progress	31/01/2023 19:17	31/01/2023 20:17
Michael Mire	Module 2 - LGPS Governance & Oversight Bodies	Subscribed		
Michael Mire	Module 6 - Current Issues	Subscribed		
Mark Shooter	Module 3 - Administration & Fund Management	Subscribed		
Mark Shooter	Module 1 - An introduction to the LGPS	Subscribed		
Mark Shooter	Module 2 - LGPS Governance & Oversight Bodies	Subscribed		
Mark Shooter	Module 5 - Investments	Subscribed		
Mark Shooter	Module 4 - Funding and Actuarial Matters	Subscribed		
Mark Shooter	Module 6 - Current Issues	Subscribed		
Zahra Beg	Module 4 - Funding and Actuarial Matters	Subscribed		
Zahra Beg	Module 3 - Administration & Fund Management	Subscribed		
Zahra Beg	Module 2 - LGPS Governance & Oversight Bodies	Subscribed		
Zahra Beg	Module 6 - Current Issues	Subscribed		
Zahra Beg	Module 1 - An introduction to the LGPS	Subscribed		
Zahra Beg	Module 5 - Investments	Registration pending		
Simon Radford	Module 4 - Funding and Actuarial Matters	Registration pending		
Simon Radford	Module 3 - Administration & Fund Management	Registration pending		
Simon Radford	Module 2 - LGPS Governance & Oversight Bodies	Registration pending		
Simon Radford	Module 6 - Current Issues	Registration pending		
Simon Radford	Module 1 - An introduction to the LGPS	Registration pending		
Simon Radford	Module 5 - Investments	Registration pending		
Arjun Mittra	Module 4 - Funding and Actuarial Matters	Registration pending		
Arjun Mittra	Module 3 - Administration & Fund Management	Registration pending		
Arjun Mittra	Module 2 - LGPS Governance & Oversight Bodies	Registration pending		
Arjun Mittra	Module 6 - Current Issues	Registration pending		
Arjun Mittra	Module 1 - An introduction to the LGPS	Registration pending		
Arjun Mittra	Module 5 - Investments	Registration pending		

1.12 The LBB Pensions Team can arrange for registration details to be sent to Committee members if required.

2. REASONS FOR RECOMMENDATIONS

2.1 N/A – Report is for noting

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None necessary for this report.

4. POST DECISION IMPLEMENTATION

4.1 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 training courses from professional advisors carries advisory costs.

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

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London Borough of Barnet

Pension Fund Committee Work Programme

July 2023 – October 2023

AGENDA ITEM 14

Title of Report	Overview of decision	Report Of *(officer)*	Issue Type (Non- key/Key/Urgent
July 2023			
Quarterly investment report to 30 June 2023	Review investment activity and the performance of the fund and investment managers.	Chief Financial Officers	Non-key
Review of Pension Fund Risk Register	To review the management of pension fund risks.	Chief Financial Officer	Non-key
Pooling update	To note developments in pooling and to review Barnet's pooling plan.	Chief Financial Officer	Non-key
Investment Strategy & manager appointments	To review progress on investment strategy decisions.	Chief Financial Officer	Non-key
Administration Report	To update the Committee on the performance of the administration service.	Chief Financial Officer	Non-key
Admission Agreement and Bonds	To provide an update on admissions, cessations and bond renewals.	Chief Financial Officer	Non-key
Annual accounts for the year to 31st March 2023	To approve the Pension Fund Annual Accounts	Chief Financial Officer	Non-key
Annual review of performance of advisors	Provide feedback to advisors on their performance.	Chief Financial Officer	Non-key
Knowledge and Understanding	To review Committee training completed and possible further training requirements	Chief Financial Officer	Non-key
Responsible Investment	To review the Fund's progress against its Responsible Investment objectives	Chief Financial Officer	Non-key
October 2023			

Subject	Decision requested	Report Of	Issue Type (Non-key/Key/Urgent
Quarterly investment report to 30 September 2023	Review investment activity and the performance of the fund and investment managers	Chief Financial Officers	Non-key
Review of Scheme Expenses	To review the scheme costs incurred in the six months to 30 September 2023	Chief Financial Officer	Non-key
Pooling update	To note developments in pooling and to review Barnet's pooling plan	Chief Financial Officer	Non-key
Investment Strategy & manager appointments	To review progress on investment strategy decisions	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 issuance of ABS.	Chief Financial Officer	Non-key
Annual review of performance of advisors	Provide feedback to advisors on their performance.	Chief Financial Officer	Non-key
Knowledge and Understanding	To review Committee training completed and possible further training requirements	Chief Financial Officer	Non-key
Responsible Investment	To review the Fund's progress against its Responsible Investment objectives	Chief Financial Officer	Non-key

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

AGENDA ITEM 16

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

AGENDA ITEM 17

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