MEETING **PENSION FUND COMMITTEE**
DATE AND TIME **TUESDAY 18TH JULY, 2017** **AT 7.00 PM**
VENUE **HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4BQ**

TO: MEMBERS OF PENSION FUND COMMITTEE (Quorum 3)

Chairman: Councillor Mark Shooter (Chairman),
Vice Chairman: Councillor John Marshall MA (Hons) (Vice-Chairman)

Councillors

Rohit Grover	Arjun Mitta	Andreas Ioannidis
Peter Zinkin	Jim Tierney	

Substitute Members

Anthony Finn	Dean Cohen	Stephen Sowerby
Adam Langleben	Ross Houston	Reema Patel

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

Media Relations contact: Sue Cocker 020 8359 7039

ASSURANCE GROUP

ORDER OF BUSINESS

FACILITIES FOR PEOPLE WITH DISABILITIES
Hendon Town Hall has access for wheelchair users including lifts and toilets. If you wish to let us know in advance that you will be attending the meeting, please telephone Paul Frost. People with hearing difficulties who have a text phone, may telephone our minicom number on 020 8203 8942. All of our Committee Rooms also have induction loops.
FIRE/EMERGENCY EVACUATION PROCEDURE
If the fire alarm sounds continuously, or if you are instructed to do so, you must leave the building by the nearest available exit. You will be directed to the nearest exit by Committee staff or by uniformed custodians. It is vital you follow their instructions. You should proceed calmly; do not run and do not use the lifts. Do not stop to collect personal belongings Once you are outside, please do not wait immediately next to the building, but move some distance away and await further instructions. Do not re-enter the building until told to do so.

Decisions of the Pension Fund Committee

14 March 2017

AGENDA ITEM 1

*Cllr Mark Shooter (Chairman)
*Cllr John Marshall (Vice-Chairman)

* Rohit Grover	* Peter Zinkin
* Jim Tierney	* Arjun Mittra

* denotes Member Present

1. MINUTES (Agenda Item 1):

Having noted that Cllr Grover's surnames was not recorded on page one the Committee resolved that the minutes of the meeting that took place on 18 January 2016 were signed as an accurate record.

2. ABSENCE OF MEMBERS (Agenda Item 2):

An apology of absence was received from Councillor Andreas Ioannidis. Substitute Member Councillor Adam Langleben also gave an apology as he was unable to attend due to a clash of meeting.

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

Member	Agenda Item	Interests Declared
Councillor Mark Shooter	All Items	Non Disclosable Pecuniary Interest by virtue of being beneficiary of LGP Scheme and/or having shareholdings in a number of companies that the fund had invested in.
Councillor John Marshall		Non Disclosable Pecuniary Interest by virtue of being beneficiary of LGP Scheme and/or having shareholdings in a number of companies that the fund had invested in.
Councillor Rohit Grover		Non Disclosable Pecuniary Interest by virtue of being beneficiary of LGP Scheme and having shareholdings in a number of companies that the fund had invested in.
Councillor Arjun Mittra		Non Disclosable Pecuniary Interest by virtue of being beneficiary of LGP Scheme and/or having shareholdings in a number of companies that the fund had invested in.
Councillor Peter Zinkin		Non Disclosable Pecuniary Interest by virtue of being beneficiary of LGP Scheme and/or having shareholdings in a number of companies that
Councillor Arjun Mittra	Item 3	Non Disclosable Pecuniary Interest by virtue of being an employee of the Greater London Authority.

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. **PRESENTATION - IMPACT OF BREXIT DECISION ON PENSION FUND PERFORMANCE. (Agenda Item 7):**

Mr Keith Wade and Mr Geoff Day were in attendance in order to provide a verbal presentation on the impact of Brexit decision on the performance of the Pensions Fund.

The Chairman thanked Mr Wade and Mr Day for their attendance and delivered the presentation.

8. **PENSION FUND PERFORMANCE TO 31 DECEMBER 2016 (Agenda Item 8):**

The report was introduced by independent Investment Analyst Mr Mufaddal from Hymans Robertson LPP. He presented the Pension Fund investment managers' performance for the October to December quarter 2016

Having considered the report the Pensions Fund Committee

Resolved:

That having considered the performance of the Pension Fund for the quarter to 31 December 2016, the Committee instruct the Chief Executive Officer (Interim) and Chief Finance Officer to address any issues that it considers necessary.

9. **LONDON COLLECTIVE INVESTMENT VEHICLE UPDATE REPORT (Agenda Item 9):**

Iain Millar, Head of Treasury Services introduced the report and gave an outline of the report and therefore updated the Pensions Fund Committee on the Local Government Pension Scheme pooling arrangements and on the London Collective Investment Vehicle

Having considered the report the Pensions Fund Committee

Resolved:
1. That the Pension Fund Committee note the progress update on investing in the LCIV.
2. That the Committee note the developments on Local Government Pension Scheme Pooling arrangements
3. That the Committee note the payment of £100,000: the Fund's contribution to the running costs of the LCIV and notes the LCIV budget proposals and passive fee charges for 2017-2018.

10. **EXTERNAL AUDIT OF PENSION FUND 2016- 2017 (Agenda Item 10):**

Mr Jody Etherington, Audit Manager from BDO introduced the audit strategy as captured in appendix A of the report. Mr Etherington highlighted the key elements of the external auditor's strategy

Having considered the report the Pensions Fund Committee:

Resolved:
1. That the Pension Fund Committee note the audit strategy for the 2016/17 external audit of the Pension Fund.

11. INVESTMENT STRATEGY REVIEW: INCOME MANAGERS AND INFRASTRUCTURE (Agenda Item 11):

The Committee consider, noted and resolved the exempt report.
Having considered the report the Committee Resolved that:

- The Pensions Fund Committee noted the findings set out in the Officers report
- The Pensions Fund Committee noted the Sub-Committee meeting which took place on 24 February 2017
- The Pensions Fund Committee considered the proposals of allocation of additional funds to liquid multi-asset credit and infrastructure.
- The Pension Fund Committee confirmed to make direct appointments in accordance with the following allocations of total fund investments:

  10% to be invested in liquid multi-asset credit strategies and therefore agreed:

  i. a further allocation of 3%,(circa £30 million) to Partners Group
  ii. 4% ,(circa £40 million) to Insight Investment
  iii. 3 %,(circa £30 million) to M&G Investments High Grade Asset Backed Securities Fund.

  5% to be invested to invested in infrastructure
  And therefore agreed

  5% (circa £50 million) to IFM Global Infrastructure Fund
- The Pensions Fund Committee approved the Section 151 Officer to implement the above resolutions.

12. ACTUARIAL VALUATION 2016 REPORT (Agenda Item 12):

The Chairman introduced the report and apologised for its lateness and circulation. Ms Gemma Sefton outlined the report and captured the executive summary as contained within the report.

James Kennedy noted his thanks to officers and Hymans Robertson LLP for assistance to Middlesex University staff.

Having considered the report the Pensions Fund Committee

Resolved:

1. That the Committee noted the results of the 2016 triennial actuarial valuation of the Pension Fund at whole fund level.
2. That the Committee noted the minimum employer contribution rates for the London Borough of Barnet for the next three years.

13. INVESTMENT STRATEGY STATEMENT (Agenda Item 13):

Iain Millar introduced the report and requested that the Committee consider and approve the Investment Strategy Statement which sets out the appropriate mix of investments for required for the Pension Fund to achieve its funding objectives.

Andrew Elliot stated the Investment Strategy Statement captures the Pension Fund's approach to investment pooling and risk.

Resolved:

1. That subject to resolution 2 the Pension Fund Committee approve the draft Investment Strategy Statement set out in Appendix 1
2. That the Committee noted that the following paragraph on pager 1 of appendix A be deleted:
   For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

14. ANY ITEM(S) THAT THE CHAIRMAN DECIDES IS URGENT (Agenda Item 14):

The Chairman introduced the admitted bodies update and the admitted bodies participating in the Local Government Pension Scheme administered by the London Borough of Barnet (LBB).

Having considered the report the Pensions Fund Committee:

Resolved:

That the Pension Fund Committee notes the update to the issues in respect of admitted body organisations within the Pension Fund, as detailed in Appendix.

The meeting finished at 20:55

	AGENDA ITEM 7 **Pension Fund Committee** **18 July 2017**
Title	**Update on Admitted Bodies Organisations**
Report of	Director of Resources
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1 – Admitted Bodies Monitoring Sheet
Officer Contact Details	Audrey Weightman, Business Manager, HR Solutions, Capita audrey.weightman@capita.co.uk 07710 505055 Colin Barker, Operational Delivery Manager, Capita colin.barker@capita.co.uk 01325 746008

Summary

This report updates the Committee on the admitted bodies participating in the Local Government Pension Scheme administered by the London Borough of Barnet (LBOB).

Recommendations

1. **That the Pension Fund Committee note the update to the issues in respect of admitted body organisations within the Pension Fund, as detailed in Appendix 1.**

1. WHY THIS REPORT IS NEEDED

1.1 The report is to update the Pension Fund Committee on the current position in relation to admitted bodies to the London Borough of Barnet Pension Fund.

2. REASONS FOR RECOMMENDATIONS

2.1 In accordance with the Best Value Authorities Staff Transfer (Pensions) Direction 2007, issued under s.101 of the Local Government Act 2003 and under section 102 of the Local Government Act 2003, former Council employees must be offered the same pension benefits and rights or a Government Actuary Department approved broadly comparable scheme.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not applicable

4. POST DECISION IMPLEMENTATION

4.1 Once any recommendations in terms of admitted bodies have been approved, the Pension Fund will take appropriate action to update records and obtain bond information.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 To maintain the integrity of the Pension Fund by monitoring of admitted body organisations and ensuring all third parties comply fully with admission agreements and bond requirements. This ensures that pension fund liabilities are covered by the responding admitted bodies; this in return protects Barnet's liabilities and supports the Council's corporate priorities as expressed through the Corporate Plan.

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

5.2.1 Appendix 1 notes the bond levels required for each admitted body which will act as guarantee for the Pension Fund liabilities.

5.2.2 All organisations have been paying their contributions in a timely way in line with the terms of their admittance to the Pension Fund and have therefore been rated green in Appendix 1.

5.2.3 All new Admission Bodies are required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or the current deficit.

5.2.4 With regard to the ongoing problem of the ‘Red’ rating of a number of organisations for the issue of a bond, it has been reported that some of the smaller bodies are having difficulty in obtaining the appropriate bond. The Pension Fund Actuary is preparing a report on the alternative options available to protect the Fund. This information should be available prior to the meeting of this Committee and will be circulated to Committee members as soon as it is received.

5.2.5 There are other cases where we are waiting for responses from third parties. To ensure that the information will be as up to date as possible, a review of the processes is being undertaken to enable each party’s roles and responsibilities and, more importantly, the appropriate escalation route to be clarified.

5.3 **Social Value**

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

5.4 **Legal and Constitutional References**

5.4.1 Schedule 2, Part 3 paragraph 1 of the Local Government Pension Scheme Regulations 2013 provides that a Local Authority, as an ‘Administering Authority’ for the Fund, may admit an organisation into the Local Government Pension Scheme, subject to that organisation, or the contractual arrangement between that organisation and the Council, meeting the criteria set out in the Regulations.

5.4.2 With respect to an admission agreement, paragraph 6, Schedule 2, Part 3 of the Regulations further provide for an assessment of the level of risk arising on premature termination of the provision of the service or assets by reason of insolvency, winding up or liquidation of the admission body. The assessment must be with the benefit of actuarial advice and, where the level of risk is such as to require it, the transferee admission body shall enter into an indemnity or bond to meet the level of risk identified. However, under paragraph 8, Schedule 2, Part 3, the Regulations do allow in some circumstances for the scheme employer to act as guarantor.

5.4.3 The Council’s standard admissions agreement makes provision for the admitted body to maintain a bond in an approved form and to vary the level of risk exposure under the bond as may be required from time to time.

5.4.4 Under the Council's Constitution, Part 15 – Responsibility for Functions, one of the Pension Fund Committee's functions is to "approve applications from organisations wishing to become admitted bodies into the Fund where legislation provides for discretion, including the requirements for bonds."

5.5 **Risk Management**

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

5.5.2 There is a possibility of financial losses to the Pension Fund where arrangements around admitted bodies and bond agreements are not sufficiently robust. Monitoring arrangements are in place to ensure that admissions agreements and bonds (where relevant) are in place and that bonds are renewed, as appropriate, during the lifetime of the relevant admission agreement.

5.6 **Equalities and Diversity**

5.6.1 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.

The 2010 Equality Act outlines the provisions of the Public Sector Equalities Duty which requires Public Bodies **to have due regard** to the need to:

- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010
- advance equality of opportunity between people from different groups
- foster good relations between people from different groups.

The broad purpose of this duty is to integrate considerations of equality into day to day business and keep them under review in decision making, the design of policies and the delivery of services

5.7 **Consultation and Engagement**

5.7.1 Not Applicable

5.8 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

Admitted Body Monitoring Spreadsheet

Appendix 1

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Housing 21 (2) New (employer 68)	56	06/09/2010	Barclays Bank	778	30/09/2015	NA	G	Housing 21 is no longer an admitted body in the fund from 01/08/2016. Actuary has confirmed that a cessation valuation is required. CEB (Capita) currently collating data. Data sent to actuary for cessation valuation calculation on 17/01/2017. Hymans await confirmation of cessation date of 31 July 2016.

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Viridian Housing	11	22/04/2006	Euler Hermes UK	65	16/08/2016	R	G	Awaiting confirmation of agreed actuarial assumptions before bond value can be calculated by actuary Data collated and sent to actuary Hymans await instruction to proceed as Committee may consider alternatives to a bond

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Freemantle Trust (2)	83	28/03/2014	Royal Bank of Scotland	770	27/03/2017		G	CEB contacted the employer on 20/02/2017 advising that their Bond is due for review on 27/03/2017. Employer advised of actuarial fees. Employer asked to confirm agreement to fees quoted. Reply currently awaited from employer. Latest chaser issued June 29th.

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Greenwich Leisure	22	31/12/2002	Zurich Insurance PLC	328	30/09/2017		G	In December 2016, data was sent to actuary for employer rate and bond. Reports have been received in February 2017 however these are FRS102 reports. CEB are currently liaising appropriately with regards to the correct information being supplied.
Birkin Cleaning Services (St James Catholic) Approved	6	24/10/2011	Technical & General Guarantee Company SA	13	30/08/2015	R	G	Await actuarial report in terms of alternatives.

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Mears Group Approved	19	10/04/2012	Euler Hermes	320	30/09/2017		G	
NSL Approved	31	01/05/2012	Lloyds TSB	412	30/04/2017		G	CEB contacted Hymans in February 2017 for Bond and Contribution Rates. Employer advised of action taken.
Music Service (BEAT) Approved	2	01/03/2013	N/A	24	28/02/2016	R	G	Await actuarial report in terms of alternatives.
Capita (NSCSO) Approved	412	01/09/2013	Barclays Bank PLC	4,731	01/09/2017		G	CEB informed the employer on 20/02/2017 that a Bond review is due on 01/09/2017.

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Capita (DRS) Approved	261	01/10/2013	Barclays Bank PLC	3,813	01/10/2017		G	CEB informed the employer on 20/02/2017 that a Bond review is due on 01/10/2017.
OCS Group Approved	13	31/05/2014	HSBC	102	31/05/2017		G	CEB contacted the employer on 20/02/2017 advising that their Bond is due for review on 31/05/2017. Employer advised of actuarial fees. Employer asked to confirm agreement to fees quoted. Reply currently awaited from employer.
Ridgecrest Cleaning Approved	4	03/11/2014	HCC Internationa l	14	03/11/2017		G	

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Green Sky (2)(Claremont School) Approved	4	19/01/2015	TBC	23		R	G	Await actuarial report in terms of alternatives.
Hartwig Approved	1	23/06/2014	N/A	N/A	N/A	NA	G	Liabilities retained by LBOB - no bond required
Allied Healthcare Approved	4	23/06/2014	N/A	N/A	N/A	NA	G	Liabilities retained by LBOB - no bond required

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Absolutely Catering (Queenswell School Catering Contract) Approved	1	01/09/2015	TBC	17	01/09/2018		G	21/12/2016 no Bond or Admission Agreement has ever been received despite many chasers, CEB have now been advised this contract has been re-procured and awarded to Pride Catering. CEB have contacted the school for confirmation of the current situation. CEB, having not received a reply from the school, have chased for a reply on 01/03/2017. As at June 29, a reply is awaited from the school and chaser action has been undertaken. Cessation calculation will be required for Absolutely Catering.

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Green Sky (3) (St Michaels School cleaning contract) Approved	5	01/09/2014	TBC	16		R	G	Await actuarial report in terms of alternatives.
Absolutely Catering (2) (St James' Catholic School) (previously on report as Brookwood) Approved	8	01/01/2016	TBC	33	01/01/2019		G	Absolutely Catering have been conversing with CEB in terms of the paperwork and expect to send the Bond document shortly, currently awaiting final information from their insurer. Admission Agreement and Bond documentation have been received and sent to Harrow for sealing.

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Servest (Henrietta Barnet School) Approved	1	01/10/2015	TBC	7	01/10/2018	NA	G	Servest have been conversing with CEB in terms of paperwork and expect to send the Bond document shortly. Currently awaiting final information from their insurer. Bond and Admission Agreement documentation received and sent to Harrow for sealing on 15/02/2017. Admitted Body process now completed.
ISS (Education and Skills – LBOB Catering) Approved	233	01/04/2016	NA	No Bond required LBOB guarantor	NA	NA	G	Admission Agreement needs to be amended to reflect the fact that a Bond is not required. CEB liaising with Harrow.

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Cambridge Education (Mott Macdonald) (Education and Skills LBOB non-catering) Approved	113	01/04/2016	NA	No Bond required LBOB guarantor	NA	NA	G	Admission Agreement received and sent to Harrow for sealing. Admitted Body process now completed.
Hestia (Domestic violence service) Approved	1	18/04/2016	TBC	£15K	TBC		G	Admission Agreement received and sent to legal for sealing. Still awaiting Bond document but details are provided in the Admissions Agreement so it can be considered to be in place. Admitted Body process now completed.

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Allied Healthcare 2 (Home Care Procurement – Healthcare) (split between AH2 and Hartwig 1 & 2 which are being joined to form Hartwig 3) Approved	5	01/08/2016	NA	No Bond required LBOB guarantor	NA	R	G	Admission agreement and bond prepared and issued by legal advisor, CEB advised legal advisor is actively chasing and will forward as soon as possible.

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
Aqualfo (Home Care Procurement – Enablement) Approved	31	01/08/2016	TBC	£572K	TBC		G	Admission Agreement and Bond has not been received. CEB have now been advised that this contract has been terminated due to service issues and the contract re-procured with Your Choice. A cessation valuation will be required, CEB currently liaising with legal advisor. Chaser action undertaken by CEB on 01/03/2017.

Admitted Body	No of Active Employees on Transfer	Start Date	Bondsman	Bond Value (£000)	Bond Expiry Date	Bond Tag (red)	Pension Contri-butions on Time RAG	Comments
APCOA	1	14/11/2016						CEB have just been informed that one member of staff has TUPE'D from NSL. Currently awaiting details as have had no involvement previously. On 15/02/2017, CEB emailed Hymans for Bond and Contribution Rates. Employer advised accordingly. Bond and Contribution Rate information remains outstanding, chaser action undertaken. Hymans await confirmation that transfer occurred on 14 Nov 2016 and that NSL remains an employer in the Fund also.

AGENDA ITEM 8

	Pension Fund Committee **18 July 2017**
Title	**Pension Fund: Admission Body Agreement**
Report of	Director of Resources
Wards	All
Status	Public
Enclosures	Appendix 1: Admission Agreement
Officer Contact Details	Gillian Clelland, Assistant Director of Finance, Customer Support Group, Gillian.clelland@barnet.gov.uk 0208 359 5310

Summary

Capita plc, an admitted body of the London Borough of Barnet Pension Fund, has sold its Asset Services businesses to Link Administration Holdings (Link Group). This report is for the admittance of Link Group (who will be operating as Capita Treasury Solutions Limited) and for the determination of a bond requirement. They will become a sub – contractor of Capita plc in the provision of treasury advice as part of the NSCSO contract.

Decisions

That the Committee authorises the Director of Resources:

1 To agree an admission agreement with Link Administration Holdings (Link Group) operating as Capita Treasury Solutions Limited

and

2. Requires Link Administration Holdings (Link Group) operating as Capita Treasury Solutions Limited to provide a bond for the admitted body.

1. WHY THIS REPORT IS NEEDED

1.1 To approve an admission for a new admitted body to the pension scheme.

2. REASONS FOR DECISIONS

2.1 Following the sale of the Asset Services businesses from Capita plc to Link Administration Holdings (Link Group), this report is to approve Link Administration Holdings (Link Group) operating as Capita Treasury Solutions Limited to enter into an admission agreement with the LB Barnet Pension Fund and provide a bond.

3. ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3.1 No other options applicable

4. POST DECISION IMPLEMENTATION

4.1 Link Administration Holdings (Link Group) operating as Capita Treasury Solutions Limited will become and admitted body in the LB Barnet Pension Scheme.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 To maintain the integrity of the Pension Fund by monitoring of admitted body organisations and ensuring all third parties comply fully with admission agreements and bond requirements. This ensures that pension fund liabilities are covered by the responding admitted bodies; this in return protects Barnet’s liabilities and supports the Council’s corporate priorities as expressed through the Corporate Plan.

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

5.2.1 The actuary will set the bond levels required for the admitted body which will act as guarantee for the Pension Fund liabilities.

5.2.2 There is one person who was employed by Capita Asset Services and this employment has transferred to Link Administration Holdings (Link Group) operating as Capita Treasury Solutions Limited.

5.3 Social Value

5.3.1 None in the context of this report.

5.4 Legal and Constitutional References

5.4.1 Schedule 2, Part 3, paragraph 1 of the Local Government Pension Scheme Regulations 2013 provide that a Local Authority, as an 'Administering Authority' for the Fund, may admit an organisation into the Local Government Pension Scheme, subject to that organisation, or the contractual arrangement between that organisation and the Council, meeting the criteria set out in the Regulations.

5.4.2 With respect to an admission agreement, paragraph 6, Schedule 2, Part 3 of the Regulations further provide for an assessment of the level of risk arising on premature termination of the provision of the service or assets by reason of insolvency, winding up or liquidation of the admission body. The assessment must be with the benefit of actuarial advice and, where the level of risk is such as to require it, the transferee admission body shall enter into an indemnity or bond to meet the level of risk identified. However, under paragraph 8, Schedule 2, Part 3, the Regulations do allow in some circumstances for the scheme employer to act as guarantor.

5.4.3 The Council's standard admissions agreement makes provision for the admitted body to maintain a bond in an approved form and to vary the level of risk exposure under the bond as may be required from time to time.

5.4.4 Under the Council's Constitution, Part 15 – Responsibility for Functions, one of the Pension Fund Committee's functions is to "approve applications from organisations wishing to become admitted bodies into the Fund where legislation provides for discretion, including the requirements for bonds."

5.5 **Risk Management Risk Management**

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

5.5.2 There is a possibility of financial losses to the Pension Fund where arrangements around admitted bodies and bond agreements are not sufficiently robust. Monitoring arrangements are in place to ensure that admissions agreements and bonds (where relevant) are in place and that bonds are renewed, as appropriate, during the lifetime of the relevant admission agreement.

5.6 **Equalities and Diversity**

5.6.1 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.

The 2010 Equality Act outlines the provisions of the Public Sector Equalities Duty which requires Public Bodies **to have due regard** to the need to:

- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010
- advance equality of opportunity between people from different groups
- foster good relations between people from different groups.

The broad purpose of this duty is to integrate considerations of equality into day to day business and keep them under review in decision making, the design of policies and the delivery of services.

5.7 **Consultation and Engagement**

5.7.1 None in the context of this report.

5.8 **Insight**

5.8.1 None in the context of this report.

6. BACKGROUND PAPERS

6.1 None

Local Government Pension Scheme: admission agreement.

DATED

ADMISSION AGREEMENT

Between

LONDON BOROUGH OF BARNET PENSION FUND

and

CAPITA TREASURY SOLUTIONS LIMITED

and

THE LONDON BOROUGH OF BARNET

CONTENTS

CLAUSE

SCHEDULE

THIS DEED is dated

PARTIES

(1) THE MAYOR AND BURGESSES OF THE LONDON BOROUGH OF BARNET of North London Business Park, Oakleigh Road South, London N11 1NP (**Administering Authority**).

(2) Capita Treasury Solutions Limited (Registered company number: 02652033) whose registered office is situated at 71 Victoria Street, London, SW1H 0XA (**Admission Body**).

(3) THE MAYOR AND BURGESSES OF THE LONDON BOROUGH OF BARNET of North London Business Park, Oakleigh Road South, London N11 1NP (**Scheme Employer**).

BACKGROUND

(A) The Administering Authority is an administering authority within the meaning of the Regulations. It administers and maintains the Fund.

(B) The Scheme Employer is a scheme employer within the meaning of the Regulations.

(C) The Admission Body is an admission body within the meaning of paragraph 1(d) of Part 3 of Schedule 2 to the Regulations.

(D) With effect from the Transfer Date, the Admission Body will provide services or assets in connection with the functions of the Scheme Employer as a result of a transfer of Services or assets by means of the Contract.

(E) The parties have agreed to enter into this admission agreement (**Agreement**) to allow the Admission Body to be admitted to the Scheme and to participate in the Fund so that the Eligible Employee can be or remain a member of the Scheme with effect on and after the Transfer Date.

(F) The terms and conditions of such an admission have been agreed between the parties to this Agreement as follows:

AGREED TERMS

1. INTERPRETATION

1.1 The definitions and rules of interpretation in this clause apply in this agreement unless the Contract requires otherwise.

Bond: a bond or indemnity with a person or firm described in paragraph 7 of Part 3 of Schedule 2 to the Regulations in a form approved by the Administering Authority.

Business Day: any day other than a Saturday, Sunday or a public bank holiday in England.

Commencement Date: September 2017

Contract: the Contract dated September 2017 for the provision of Services between the Scheme Employer and the Admission Body.

Eligible Employees: the employee who is employed in connection with the provision of Services or assets referred to in the Contract, as listed in the Schedule to the Agreement; and provided that:

(a) the employee is and remains employed by the Admission Body in connection with the provision of the Services; and

(b) the employee otherwise satisfies the requirements of the Regulations relating to eligibility for and membership of the Scheme.

Employer's Contribution Rate: the Admission Body's employer's contribution rate of 36.5% of the pensionable pay of the Eligible Employee, calculated in accordance with the rates and adjustments certificate obtained in accordance with regulation 62 of the Regulations applicable to the Admission Body and certified by an actuary appointed by the Administering Authority as being the appropriate amount, as revised from time to time in accordance with clause 8.1 of the Agreement.

Fund: the London Borough of Barnet Pension Fund within the Scheme.

Guarantee: a guarantee with a person described in paragraph 8, Part 3 of Schedule 2 to the Regulations in a form approved by the Administering Authority.

Registered Pension Scheme: a pension scheme registered under Chapter 2 of Part 4 of the Finance Act 2004.

Regulations: the Local Government Pension Scheme Regulations 2013 (*SI 2013/2356*).

Scheme: the Local Government Pension Scheme.

Services: The provision of operational and strategic advice in relation to general treasury management advice, credit risk management, debt management, investment advice, tender review, technical advice, and other ad hoc queries.

Termination Date: has the meaning prescribed in clause 10.2 or clause 10.3 as appropriate.

Transfer Date: September 2017

1.2 For the purposes of this agreement, the expression "employed in connection with the provision of the Services" shall mean working for at least 50% of normal working time on the Services.

1.3 Unless stated otherwise, the words and expressions used in this Agreement shall have the same respective meanings as in the Regulations unless the context otherwise requires.

1.4 Clause, schedule and paragraph headings shall not affect the interpretation of this agreement.

1.5 A **person** includes a natural person, corporate or unincorporated body (whether or not having separate legal personality).

1.6 The schedules form part of this Agreement and shall have effect as if set out in full in the body of this Agreement and any reference to this Agreement includes the schedules.

1.7 A reference to a **company** shall include any company, corporation or other body corporate, wherever and however incorporated or established.

1.8 Words in the singular shall include the plural and vice versa.

1.9 A reference to one gender shall include a reference to the other genders.

1.10 A reference to a statute or statutory provision is a reference to it as it is in force for the time being, taking account of any amendment, extension, or re-enactment and includes any subordinate legislation for the time being in force made under it.

1.11 A reference to **writing** or **written** includes faxes but not e-mail.

1.12 Any obligation in this Agreement on a person not to do something includes an obligation not to agree or allow that thing to be done.

1.13 A reference to a document is a reference to that document as varied or novated (in each case, other than in breach of the provisions of this agreement) at any time.

1.14 References to clauses and schedules are to the clauses and schedules of this Agreement; references to paragraphs are to paragraphs of the relevant schedule.

2. COMMENCEMENT AND DURATION OF AGREEMENT

The Agreement shall commence on the Commencement Date and will remain in force until the Termination Date unless terminated earlier in accordance with clause 10 of the Agreement.

3. ADMISSION

3.1 From the Transfer Date, the Administering Authority shall permit the Eligible Employee to be or to remain a member of the Scheme and to participate as an active member of the Fund. From that date the Admission Body shall operate as if it were an employing authority for the purpose of the Regulations and shall exercise the responsibilities provided for in the Regulations.

3.2 This is to be a closed admission agreement.

4. EFFECT OF THE REGULATIONS

4.1 The Regulations will apply in determining the rights, obligations and actions to be taken by each party to this Agreement.

4.2 The Regulations will apply to the Eligible Employee as if the Admission Body were scheme employer within the meaning of the Regulations.

4.3 The Regulations will govern the transfer of information between the parties.

4.4 Each party agrees with the other to take such action as is required to comply with the Regulations.

5. PARTICIPATION AND INDEMNITIES

5.1 The Admission Body warrants and represents to the Administering Authority and the Scheme Employer that, as at the Transfer Date, the Eligible Employee is employed in connection with the provision of the Services for the purposes of this Agreement.

5.2 The Admission Body undertakes that it will promptly notify the Administering Authority and Scheme Employer in writing if the Eligible Employee ceases to satisfy the definition of Eligible Employee. The employee shall then cease to be eligible to be an active member of the Scheme.

5.3 The Admission Body shall be liable for and shall indemnify the Fund against any breach by the Admission Body of this Agreement, the Regulations, or any other legal or regulatory requirements applicable to the Scheme.

5.4 The Scheme Employer shall be liable for and shall indemnify the Fund against any failure on the part of the Admission Body to comply with its obligations under this Agreement.

6. PAYMENTS

6.1 The Admission Body shall pay to the Administering Authority for credit to the Fund such contributions and payments as are due under the Regulations as required by the Administering Authority in respect of the Eligible Employee.

6.2 The Admission Body shall pay to the Administering Authority for credit to the Fund:

(a) the employee pensions contributions from time to time deducted from the pay of the Eligible Employee under the Regulations;

(b) the employer contributions due under the Regulations based on the Employer's Contribution Rate.

These contributions will be payable on a monthly basis in arrears; and

(c) any sums calculated under clause 8 and clause 10 arising on termination of the Agreement; and

(d) any other payments required by the Regulations or by any other legislation.

The payment must be paid to the Administering Authority no later than the date specified in the Regulations and regulations made under the Pensions Act 1995 or relevant substituting statutory provision.

6.3 Where the Admission Body certifies that:

(a) the Eligible Employee who is an active member of the Scheme aged 55 or more is being dismissed by reason of redundancy or is leaving the employment of the Admission Body on grounds of business efficiency;

(b) the Eligible Employee who is an active member of the Scheme is retiring voluntarily with the consent of the Admission Body on or after age 55 and before normal pension age;

(c) it is permitting the Eligible Employee who is an active member of the Scheme to retire on the grounds of ill health or infirmity of mind or body;

(d) the deferred benefit of the Eligible Employee is brought into payment with the consent of the Admission Body on or after age 55 and before normal pension age;

(e) the deferred benefit of the Eligible Employee is brought into payment on the grounds of ill health or infirmity of mind or body; or

(f) the Admission Body has exercised a discretion under the Regulations,

and immediate benefits are payable under the Regulations, the Admission Body shall make a payment to the Administering Authority of an amount representing the actuarial strain on the Fund of the immediate payment of benefits as certified by an actuary appointed by the Administering Authority.

6.4 The amount of the payment in clause 6.3 will be notified to the Admission Body in writing by the Administering Authority. It will be due within 30 days of receipt of the written notification or by such other arrangement as may be agreed between the parties within that period. Where the sum notified is more than £1,000, with the agreement of the Administering Authority, it may be paid by equal annual instalments over a period of five years (or the remaining period of the Contract if less), the first instalment of which is to be paid within [30] days of receipt of the written notification and the remaining instalments to be paid with interest within [one month] of the relevant anniversary of receipt of the written notification.

6.5 Any financial penalty incurred by the Fund arising from the failure of the Admission Body to comply with the terms of this Agreement shall be repaid to the Fund by the Admission Body within [30] days of receiving a written request from the Administering Authority.

6.6 If any sum payable under the Regulations or this Agreement by the Admission Body to the Administering Authority or to the Fund remains unpaid one month after the date on which it becomes due under the Agreement or the Regulations, the Admission Body will pay interest calculated in accordance with the Regulations on the amount remaining unpaid.

6.7 If any sum payable under the Regulations or this Agreement by the Admission Body to the Administering Authority or to the Fund is unpaid when it becomes due, the Administering Authority acting in its capacity as the Scheme Employer may set off against any payments due to the Admission Body under the Contract an amount equal to the sum due (including any interest due in accordance with clause 6.6) and then pay the sum to the Administering Authority for credit to the Fund.

6.8 The Admission Body and the Scheme Employer agree that the right of set-off in clause 6.7 shall be valid and enforceable notwithstanding any provision to the contrary in the Contract.

7. ADMISSION BODY'S UNDERTAKINGS

The Admission Body undertakes:

(a) to provide or procure the provision of any information relating to the Admission Body's participation in the Fund and the Eligible Employee's participation in the Scheme as is reasonably required by the Administering Authority;

(b) to comply with the reasonable requests of the Administering Authority to enable it to comply with the requirements of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (*SI 2013/2734*) or any replacement provisions;

(c) to adopt the practices and procedures relating to the operation of the Scheme set out in the Regulations and in any employer's guide published by the Administering Authority and provided to the Admission Body;

(d) to notify the Administering Authority and Scheme Employer immediately of each occasion on which it exercises a discretion under the Regulations and the manner in which it exercises that discretion;

(e) without prejudice to the requirements of the Regulations and any employer's guide published by the Administering Authority and provided to the Admission Body, to notify the Administering Authority and Scheme Employer in writing of any material change in the terms and conditions of employment of any Eligible Employee that affects or is likely to affect entitlement to benefits under the Scheme for an in respect of the Eligible Employee and of any termination of employment by virtue of redundancy or in the interests of business efficiency;

(f) not to be party to any act, omission or thing that would prejudice the status of the Scheme as a Registered Pension Scheme;

(g) to notify the Administering Authority and Scheme Employer immediately of any matter that may affect, or is likely to affect, its participation in the Scheme and give immediate notice to the Administering Authority and Scheme Employer of any actual or proposed change in its status that may give rise to a termination of the Contract, including but not limited to take-over, reconstruction or amalgamation, liquidation or receivership and a change in the nature of its business or constitution; and

(h) that in the event of any future transfer of the Eligible Employee to a sub-contractor or separate organisation for the delivery of the Services or assets provided for in the Contract, to secure that such sub-contractor or organisation complies with the obligations set out in this Agreement in so far as they may otherwise cease to be the obligations of the Admission Body.

8. REVISION OF EMPLOYER'S CONTRIBUTION RATE AND EXIT PAYMENT

8.1 The Administering Authority shall periodically obtain from an actuary a certificate specifying, in the case of the Admission Body, the percentage or amount by which, in the actuary's opinion, the Employer's Contribution Rate should be increased or reduced. This is with a view to ensuring that, as far as it is reasonably possible, the value of assets of the Fund in respect of the Eligible Employee under the Agreement is neither materially more nor materially less than the anticipated liabilities of the Fund in respect of the Eligible Employee at the date the Contract or this Agreement is due to end. The charges for such actuarial services shall be borne by the Admission Body.

8.2 When this Agreement terminates under clause 10, the Administering Authority must obtain:

(a) an actuarial valuation as at the Termination Date of the liabilities of the Fund in respect of the Eligible Employee or former Eligible Employees of the Admission Body under the Agreement; and

(b) a revision of any rates and adjustments certificate within the meaning of the Regulations showing the exit payment due from the Admission Body in accordance with regulation 64(2) of the Regulations.

9. INDEMNITY, BOND OR GUARANTEE FROM ADMISSION BODY

9.1 Before the Commencement Date, the Admission Body, taking account of actuarial advice and to the satisfaction of the Administering Authority, assessed the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up or liquidation of the Admission Body, as £58,000.00.

9.2 The Admission Body warrants that, where required by the Administering Authority, at the Commencement Date there is in place a Bond or, where for any reason it is not desirable for the Admission Body to enter into a Bond, a Guarantee in respect of the level of risk identified in *clause 9.1*.

9.3 The Admission Body shall, to the satisfaction of the Administering Authority keep under assessment the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up or liquidation of the Admission Body at no more than annual intervals. Following such review, where the risk requires it and within 30 days of notification by the Scheme Employer, the Admission Body shall:

(a) arrange for the existing Bond or indemnity to be renewed and amended to cover the revised amount of assessed risk; or

(b) secure a new Bond or indemnity to cover the revised amount of the assessed risk.

10. TERMINATION

10.1 The Admission Body shall:

(a) notify the Administering Authority of any matter that may affect, or is likely to affect, its participation in the Scheme; and

(b) give immediate notice to the Administering Authority of any actual or proposed change in its status that may give rise to a termination, and for these purposes, a termination includes a take-over, reconstruction or amalgamation, liquidation or receivership and a change in the nature of the Admission Body's business or constitution.

10.2 Subject to clause 10.3 and clause 10.4, this Agreement shall terminate on the earlier of the Termination Date (as determined by clause 10.3 and clause 10.4) or at the end of the notice period on either of the parties hereto giving a minimum of six months' notice to terminate this Agreement to the other party, but such notice shall not have effect unless a broadly comparable occupational pension scheme is made available to the Eligible Employee who is an active member of the Scheme at the Termination Date of this Agreement.

10.3 This Agreement shall automatically terminate on the Termination Date which shall be the earlier of the date of:

(a) the date of expiry or earlier termination of the Contract;

(b) the date the Admission Body ceases to employ the Eligible Employee; or

(c) the date the Admission Body otherwise ceases to be an admission body for the purposes of the Regulations.

10.4 This Agreement may be terminated with immediate effect (which shall then be the Termination Date) by the Administering Authority by notice in writing to the Admission Body in the event of:

(a) the insolvency, winding up or liquidation of the Admission Body;

(b) a material breach by the Admission Body of any of its obligations under this Agreement or the Regulations. However, if the breach can be remedied the Administering Authority shall allow the Admission Body the opportunity to do so on such terms as the Administering Authority decides;

(c) the failure by the Admission Body to pay any sums due to the Administering Authority or to the Fund within one month of the periods specified in clause 6.2, clause 6.3, clause 6.5 and clause 8.2(b) or, in any other case, within one month of receipt of a notice from the Administering Authority requiring it to do so; or

(d) the failure by the Admission Body to obtain or alter an indemnity or bond in accordance with clause 9.

11. NOTICES

Any notice to be given under this Agreement shall be in writing and shall be deemed to be sufficiently served if delivered by hand or sent by prepaid first class post to the registered office of the Admission Body or the headquarters' address of the Administering Authority and shall be deemed to have been duly given or made:

(a) if delivered by hand or by fax or electronic transmission (provided receipt is acknowledged), on delivery at the address provided for in this clause 11 unless such delivery occurs on a day which is not a Business Day or after 4.00 pm on a Business Day, in which case it will be deemed to have been given at 9.00 am on the next Business Day; or

(b) if sent by prepaid first class post, on the second Business Day after the date of posting.

12. PUBLIC INSPECTION

Subject to the removal of Schedule 1 in order to protect the personal data of the Eligible Employees, this Agreement shall be made available for public inspection by the Administering Authority at their headquarters' address.

13. SEVERANCE

If any provision or part-provision of this Agreement is or becomes invalid, illegal or unenforceable, it shall be deemed modified to the minimum extent necessary to make it valid, legal and enforceable. If such modification is not possible, the relevant provision or part-provision shall be deemed deleted. Any modification to or deletion of a provision or part-provision under this clause shall not affect the validity and enforceability of the rest of this agreement.

14. DISPUTES

While the Agreement is in force, any party may request a formal review of it to determine whether any amendments should be made. Any reasonable request for such a review shall not be refused by the other party. In respect of any review or any other question that may arise between the parties to this Agreement relating to its construction or to the rights and obligations under the Agreement, any dispute shall be referred in writing to an independent legal adviser for determination.

15. THIRD PARTY RIGHTS

This Agreement and the documents referred to in it are made for the benefit of the parties; they do not intend that any of its terms will be enforceable by virtue of the Contracts (Rights of Third Parties) Act 1999 by any person not a party to it other than the Eligible Employees.

16. APPLICABLE LAW

16.1 This Agreement and any claim or matter arising under or in connection with this Agreement (including non-contractual disputes or claims) are governed by and construed in accordance with the law of England and Wales.

16.2 The parties irrevocably agree that the courts of England and Wales shall have exclusive jurisdiction to settle any dispute or claim that arises out of or in connection with this Agreement or its subject matter or formation (including non-contractual disputes or claims).

17. COUNTERPARTS

This Agreement may be executed in any number of counterparts, each of which is an original and which together have the same effect as if each party had signed the same document.

THE COMMON SEAL of
THE MAYOR AND BURGESSES OF
THE LONDON BOROUGH OF BARNET
was hereunto affixed in the presence of:

………………………………………
Authorised signatory

………………………………………
Authorised signatory

Executed and delivered as a deed by
Capita Treasury Solutions Limited acting by

……………………………………… Director

……………………………………… Director / Company Secretary
This document has been executed as a deed and is delivered and takes effect on the date stated at the beginning of it.

Schedule 1 Eligible employee

Pensionable Employee to be admitted on the Transfer Date:

Employee Number	Employee Name	Date of Birth	NI Number	Current Member of Fund? Y/N
	M Male	Confidential	Confidential	Y

AGENDA ITEM 9

Pension Fund Committee

18 July 2017

Title	**Barnet Council Pension Fund – Annual Report and Statement of Accounts 2016/17**
Report of	Director of Resources
Wards	n/a
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Annual Report and Accounts **(to follow)**
Officer Contact Details	Gillian Clelland, Assistant Director of Finance, CSG gillian.clelland@barnet.gov.uk - 0208 359 5310

Summary

The primary responsibility of those charged with managing the Local Government Pension Scheme (LGPS) is ensuring that the pension fund has sufficient assets to meet pensions liabilities in the long term. This report brings to the Pension Board the draft Annual Report and Accounts for the Barnet Pension Fund.

Recommendations

1. **That the committee reviews and approves the draft Annual Report and Accounts for the Barnet Pension Fund.**

1. WHY THIS REPORT IS NEEDED

1.1 The Pension Fund's Annual Report and Accounts for the year ended 31 March 2017 (included as Appendix A) has been completed and is in the process of being independently audited by the Council's external auditors, BDO. The accounts form part of the London Borough of Barnet Council's Statement of Accounts.

1.2 The Annual Report and Accounts have been produced taking into account the guidance produced by the Chartered Institute of Finance and Accountancy (CIPFA) - LGPS Fund Accounts 2016/17: Example Accounts and Disclosure Checklist.

1.3 The Annual Report and Accounts need to be approved by the Pension Fund Committee before external audit can issue their formal opinion on the Pension Fund accounts. The draft annual report and accounts will be finalised once the external auditor has issued his formal opinion and this has been incorporated into the report. This will then be taken to the Council's September Audit Committee, alongside the Council's Statement of Accounts.

1.4 A copy of the final annual report and accounts will be placed on both the Pension Fund and the Council websites, and all Fund employers will be notified. In addition, the link will be emailed to all Councillors, trade unions who represent contributing members of the Fund and on request to any other individuals or organisations.

1.5 A summary of the annual report will be sent to all scheme participants in due course.

2. REASONS FOR RECOMMENDATIONS

2.1 The terms of reference of the Pension Fund Committee require the Committee to approve the Annual Report and the Pension Fund Accounts.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None

4. POST DECISION IMPLEMENTATION

4.1 The Director of Resources will carry out any actions considered necessary.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund by the Pension Fund Committee will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities (2015-2020). Separate reports on the agenda of this committee include the investment performance and the Funding Strategy Statement.

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

5.2.1 There are no immediate resource issues for the Council as a result of preparation of the Annual Report and Pension Fund Accounts. The calculation of the Council employer's contribution rate, which is done at the time of the actuarial valuation, takes into account investment performance and this is a charge to the General Fund.

5.3 **Social Value**

5.3.1 The Public Services (Social Value) Act 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 - Regulation 34 of The LGPS (Administration) Regulations 2008 provides the statutory requirement for LGPS pension funds to produce an Annual Report and Accounts.

5.4.2 Constitution - Under Part 15, Annex A - Responsibility for Functions, one of the terms of reference of the Pension Fund Committee is 'To meet review and consider approval of the Pension Fund Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts (as the case may be)' and 'To receive and consider approval of the Pension Fund Annual Report'.

5.5 **Risk Management**

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

5.5.2 The CIPFA publication *Managing Risk in the Local Government Pension Scheme* (2012) provides more detail on the nature, identification and management of risk in the LGPS.

5.5.3 The Council's risk register is being updated to ensure that is fully reflects the risks associated with the management of the Pension Fund.

5.6 Equalities and Diversity

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

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

5.7 Consultation and Engagement

5.7.1 The Pension Fund communication policy is being updated to outline how we communicate with our stakeholders, the key groups of stakeholders being:

- Scheme members
- Employing authorities
- The Fund's contractor for pension administration services, Capita Employee Benefits
- The Council's contractor for finance and HR services, Capita Customer Support Group
- Other bodies, for example prospective employing organisations

5.7.2 The Pension Fund website will be developed to support the communications strategy.

5.7.3 The council is committed to developing the strategy to clearly and effectively communicate and to provide a high-quality service to all its stakeholders.

5.8 Insight

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

AGENDA ITEM 10

Pension Fund Committee

18 July 2017

Title	**Barnet Council Pension Fund – Funding Strategy Statement**
Report of	Director of Resources
Wards	n/a
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Funding Strategy Statement (FSS)
Officer Contact Details	Gillian Clelland, Assistant Director of Finance, CSG gillian.clelland@barnet.gov.uk - 0208 359 5310

Summary

The primary responsibility of those charged with managing the Local Government Pension Scheme (LGPS) is ensuring that the pension fund has sufficient assets to meet pensions liabilities in the long term. The Funding Strategy Statement (FSS) is a key document in defining how the administering authority, London Borough of Barnet Council, will meet its responsibilities in managing the LGPS fund. This report sets out the strategy taken.

Recommendations

1. **That the committee reviews and approves the Funding Strategy Statement.**

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 Council to prepare, publish and maintain a Funding Strategy Statement.

1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) prepared guidance, in a document entitled "Guidance on Preparing and Maintaining a Funding Strategy Statement in the LGPS" and this guidance was updated in 2016.

1.3 The FSS was prepared by the Council in collaboration with the Fund's Actuary, Hymans Robertson and it is attached at Appendix A.

1.4 The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis

1.5 The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement

1.6 The FSS should be reviewed formally at least every three years and in advance of the completion of the triennial valuation of the Pension Fund. The valuation exercise establishes contribution rates for all employers contributing to the fund for the following three years within the framework provided by the strategy. The next valuation will be 31 March 2019. However, a revised statement can be issued in the interim if any significant or material change arises. This Funding Strategy has been updated to reflect changes made for the 2016 valuation.

2. REASONS FOR RECOMMENDATIONS

2.1 The terms of reference of the Pension Fund Committee require the Committee to consider approval of the Funding Strategy Statement as a key statutory document.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None

4. POST DECISION IMPLEMENTATION

4.1 The Director of Resources will carry out any actions considered necessary.

5. IMPLICATIONS OF DECISION

5.1 **Corporate Priorities and Performance**

5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund by the Pension Fund Committee will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities (2015-2020). A separate report on the agenda of this committee details the investment performance.

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

5.2.1 There are no direct Resources issues for the council as a result of preparation of this Funding Strategy Statement.

5.3 **Social Value**

5.3.1 The Public Services (Social Value) Act 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 - Regulation 58 of the Local Government Pension Scheme Regulations

2013 provides the statutory framework from which LGPS administering authorities are required to prepare and maintain a Funding Strategy Statement.

5.4.2 Constitution - Under Part 15, Annex A - Responsibility for Functions, one of the terms of reference of the Pension Fund Committee is 'To consider approval and act in accordance with the following statutory Pension Fund documents:-

- Statement of Investment Principles
- **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.

5.5 Risk Management

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

5.5.2 Awareness of the risks that may impact on the funding strategy and expectations of future solvency is crucial to determining the appropriate measures to mitigate those risks. The FSS identifies those risks specific to the pension fund and the measures to be taken or assumptions made to counter those risks. These risks have been classified in the Funding Strategy Statement under four main headings:

- financial
- demographic
- regulatory
- governance

5.5.3 The activity of pension fund management exposes the administering authority to a wide range of risks, with those most likely to impact upon the funding strategy being:

- **Investment and discount rate risk** – the risk of investments not performing (income) or increasing in value (growth) as forecast.
- **Liability risk** – inflation, life expectancy and other demographic changes, and interest rate and wage and salary inflation will all impact upon future liabilities.
- **Regulatory and compliance risk** – occupational pensions in the UK are heavily regulated, with thousands of pages of both general and LGPS-specific legislation that must be complied with.
- **Employer risk** – those risks that arise from the ever-changing mix of employers; from short-term and ceasing employers; and the potential for a

shortfall in payments and/or orphaned liabilities.

- **Liquidity/maturity risk** – the LGPS is going through a series of changes, each of which will impact upon the maturity profile of the LGPS and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery, which result in active members leaving the LGPS; transfers of responsibility between different public sector bodies; scheme changes that might lead to increased opt-outs; the implications of spending cuts all of these will result in workforce reductions that will reduce membership, reduce contributions and prematurely increase retirements in ways that may not have been taken account of fully in previous forecasts.

5.5.4 The Administering authority should ensure that funding risks are included within its overarching risk management framework and strategy, linking to their risk register and risk management policy as appropriate. This should include defining a role for the local pension board within this framework.

5.5.5 The CIPFA publication *Managing Risk in the Local Government Pension Scheme* (2012) provides more detail on the nature, identification and management of risk in the LGPS.

5.5.6 The council's risk register is being updated to ensure that is fully reflects the risks associated with the Pension Fund and in accordance with the Funding Strategy Statement.

5.6 **Equalities and Diversity**

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

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

5.7 **Consultation and Engagement**

5.7.1 The Funding Strategy had been circulated to the employers contributing to the Barnet Pension Fund. Any relevant feedback will be tabled at the meeting.

5.7.2 An Employer Forum will be established to ensure that the administrating authority can engage with the employers and other stakeholders to determine the proposed methodology for future reviews of the FSS.

5.7.3 The administering authority will inform the local pension board of the valuation process and provide an explanation of the outcomes.

5.8 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

London Borough of Barnet Pension Fund

Funding Strategy Statement

March 2017

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DRAFT Funding Strategy Statement

Appendices

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Barnet Pension Fund ("the Fund"), which is administered by London Borough of Barnet Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 31 March 2017.

1.2 What is the London Borough of Barnet Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Barnet Pension Fund, in effect the LGPS for the London Borough of Barnet area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Gillian Clelland, Assistant Director of Finance in the first instance at gillian.clelland@barnet.gov.uk.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. A Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in a Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

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2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority may consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund may permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?

2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.

3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	**Scheduled Bodies**			**Community Admission Bodies and Designating Employers**		**Transferee Admission Bodies**
Sub-type	**Local Authorities**	**Colleges, Universities etc**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No
Maximum time horizon – Note (c)	20 years	15 years	20 years	15 years or less depending on circumstance	15 years or less depending on circumstance	Outstanding contract term unless pass-through
Secondary rate – Note (d)	monetary amount	Monetary amount	% of payroll	% of payroll or monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority	Covered by academy approach detailed below	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the time horizon
Probability of achieving target – Note (e)	66%	66%	66%	66%	66%	66% - assuming there is a guarantor
Phasing of contribution changes	Covered by stabilisation arrangement	Maximum of 3 years	Maximum of 3 years	Maximum of 3 years	Maximum of 3 years	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of non pass-through contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)

Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).	Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).	Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	**London Borough of Barnet Council and Academies**
Max cont increase per year	Max of +1% pa until 2020, to be confirmed thereafter
Max cont decrease per year	-0.5% pa

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the three year period until the next valuation will often be set as a monetary amount. However, where set as pay the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (Academy schools)

At the time of writing, the Fund's proposed approach on academies' funding issues is as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's stand-alone contribution rate may be calculated using market conditions, the council funding position and membership data, all as at the day prior to conversion;

v. Academies existing in the Fund as at 31 March 2017 and those who convert between 1 April 2017 and 31 March 2020 will pay a pooled rate until the certification of rates following the 31 March 2019 valuation.

vi. From 1 April 2020 onwards (i.e. when the Rates and Adjustments certificate comes into force following the 31 March 2019 formal valuation) rates will be set as follows:

   a. all academies' stand-alone rates will be calculated either at the valuation or on conversion, and

   b. stabilisation of rates will apply; this means that academies will take steps upwards or downwards towards their stand-alone rate in line with the parameters set out in Note (b).

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iv) and (v) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) <u>Pooling</u>

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) <u>Letting employer retains pre-contract risks</u>

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) <u>Fixed contribution rate agreed</u>

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a “gilts cessation basis”, which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. Currently the pools in place within the Fund are as follows:

- Barnet Council pool
- Colleges
- Orphan employer codes with the relevant successor body

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Early retirement strains are payable immediately.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund may monitor each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer may be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

Affordability – how much can employers afford;

Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

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

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

*"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*

*to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website, at www.barnet.gov.uk;

A copy sent by post/e-mail to each participating employer in the Fund;

A copy sent to employee/pensioner representatives via the Local Pension Board;

A full copy linked from the annual report and accounts of the Fund;

Copies sent to investment managers and independent advisers;

Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, adoption of and changes to the FSS would need agreement by the Pension Fund Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles/Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.barnet.gov.uk.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a SIP/ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this

Risk	Summary of Control Mechanisms
	risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).

Risk	Summary of Control Mechanisms
	For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or	The Administering Authority maintains close contact

Risk	Summary of Control Mechanisms
is not heeded, or proves to be insufficient in some way	with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D:

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;

3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

2. within the determined time horizon (see note 3.3 Note (c) for further details),

3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. within the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;

5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

1. the actual timing of employer contributions within any financial year;
2. the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

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3. the actual timing of employer contributions within any financial year;
4. the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 2.0% per annum greater than gilt yields at the time of the valuation. In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by

2. the retail prices index (RPI) p.a. thereafter.

This gives a single “blended” assumption of RPI less 0.7%. This is a change from the previous valuation, which assumed a flat assumption of RPI plus 1.0% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we have used a reduction of 1.0% per annum.

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is to reduce life expectancy by around 0.2 years on average, which reduces the funding target all other things being equal. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See

Appendix D for further details.

Stabilisation Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

Valuation An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

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