

**MEETING**

**PENSION FUND COMMITTEE**

**DATE AND TIME**

**MONDAY 30TH JULY, 2018**

**AT 7.00 PM**

**VENUE**

**HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4AX**

**TO: MEMBERS OF PENSION FUND COMMITTEE (Quorum 3)**

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

Anthony Finn                      Anne Hutton  
Elliot Simberg                      Alison Moore                      Danny Rich

**Substitute Members**

Stephen Sowerby                      Eva Greenspan                      Peter Zinkin  
Ross Houston                      Reema Patel                      Arjun Mittra

In line with the Constitution's Public Participation and Engagement Rules, requests to submit public questions or comments must be submitted by 10AM on the third working day before the date of the committee meeting. Therefore, the deadline for this meeting is 25 June 2018 at 10AM. Requests must be submitted to Paul Frost.

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

**Andrew Charlwood – Head of Governance**

Governance Service contact: Paul Frost

Media Relations contact: Sue Cocker 020 8359 7039

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**ASSURANCE GROUPORDER OF BUSINESS**

Item No	Title of Report	Pages
1.	Minutes	5 - 8

2.	Absence of Members	
3.	Disclosable Pecuniary interests and Non Pecuniary interests	
4.	Public Question and Comments (if any)	
5.	Report of the Monitoring Officer (if any)	
6.	Members' Items (if any)	
7.	Annual Report and Accounts and External Auditor's Report	9 - 132
8.	Any Items that the Chairman Decides is Urgent	
9.	Motion to Exclude the Press and Public	
10.	Review of strategic Allocations - Exempt	133 - 156
11.	Performance for the Quarter to 30 June 2018 - Exempt	157 - 166
12.	Barnet Council Pension Fund – Presentation by Newton - Exempt	167 - 290
13.	Any item(s) that the Chairman decides is urgent (Continued)	

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# Decisions of the Pension Fund Committee

26 June 2018

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

AGENDA ITEM 1

Anthony Finn  
Eliot Simberg

Anne Hutton  
Alison Moore

Danny Rich

## 1. MINUTES (Agenda Item 1):

Before the Committee approved the minutes of the last meeting the Chairman welcomed Members to the first Pension Fund Committee meeting of the municipal year.

**RESOLVED** – That the Minutes of the meeting held on 26 February 2018 be approved.

## 2. ABSENCE OF MEMBERS (Agenda Item 2):

None.

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

Councillor Mark Shooter and Councillor John Marshal declared a 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 Anne Hutton and Alison Moore both declared a non-disclosable pecuniary Interest by virtue that they have shareholdings in companies that the fund had invested in.

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

None

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

None.

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

None.

## 7. EXTERNAL AUDIT REPORT (Agenda Item 7):

The report was presented by external auditor Mr Leigh Lloyd-Thomas from BDO. He gave a summary of the report and highlighted Appendix A that set out the key risks identified by the auditor for 2017/18 and the nature of the testing that will be undertaken. BDO expected to report their findings at the Committee meeting on 30<sup>th</sup> July

The Committee had the opportunity to ask questions of Mr Leigh Lloyd-Thomas. The Committee highlighted concerns and it was noted that there were issues which needed to be addressed as documented within the report.

The Chairman thanked Mr Leigh Lloyd-Thomas for his attendance and presenting the report.

Resolved:

**That the Pension Fund Committee noted the audit strategy for the 2017/18 Report and Accounts**

**8. UPDATE ADMITTED BODIES (Agenda Item 8):**

The Head of Treasury and Pensions for Capita introduced the report. He provided the Committee with update on the Admitted Bodies participating in the Local Government Pension Scheme administered by the London Borough of Barnet.

Having considered the report the Committee:

- **Approved the admission of Greenwich Leisure Limited, Elior and Churchill Catering, subject to the signing of admission agreements and provision of bonds / guarantors as calculated by the scheme actuary,**
- **Noted the update concerning cessations and bonds as detailed below and in Appendix 1.**

**9. TRANSFER VALUE IN RESPECT OF BARNET AND SOUTHGATE COLLEGE (Agenda Item 9):**

The Head of Treasury and Pension introduced the report. He stated that Barnet and Southgate Colleges merged in 2011 and the active members of Southgate College transferred from the London Borough of Enfield pension scheme to the Barnet Pension Fund. He informed Members that Enfield are seeking to retain deferred and pensioner members within their fund and requesting a transfer value of approximately £4 million from the Barnet Pension Fund. He stated that negotiations are continuing with Enfield and their actuary.

Having considered the report the Committee:

- **Noted the ongoing discussions with the London Borough of Enfield and that proposals to resolve the transfer will be submitted to the Committee for approval at a later date.**
- **Requested an update at the next meeting, 30 July 2018.**

**10. BARNET COUNCIL PENSION FUND – ANNUAL PERFORMANCE REPORT (Agenda Item 10):**

The Head of Treasury and Pensions introduced the report. He gave a summary of the report and the findings from the most recent PIRC comparative investment performance report for the Barnet Pension Fund as highlighted in appendix A.

Having considered the report the Committee:

- **Noted the report**

**11. FOSSIL FUEL AND CORPORATE ENGAGEMENT (Agenda Item 11):**

The Chairman introduced the report.

Having considered the report the Committee:

- **Agreed to request Legal and General to provide training on the available approaches to passive equity investing, including low carbon, and**
- **Acquires membership of the Local Authority Pension Fund Forum.**

**This was put to the vote**

**For – 6**

**Against – 1**

**12. SCHEME FUNDING UPDATE (Agenda Item 12):**

The Head of Treasury and Pensions introduced the report. The Scheme Actuary has estimated a funding level of 71.3% as at 31 March 2018. The Actuary will be attending a Committee meeting during 2018 as part of the planning for the 2019 triennial valuation.

The Government Actuary's Department reviewed the Fund's 2016 triennial valuation report and issued a one page report considering compliance with Regulations. They noted that the Scheme's funding level is low compared to other LGPS but that the plan to achieve full funding is credible. Concerns with the quality of data provided to the Scheme Actuary were mentioned at a meeting with Barnet officers.

Having considered the report:

**That the Pension Fund Committee note the funding update and the GAD scorecard.**

**13. LONDON BOROUGH OF BARNET PENSION FUND – ANNUAL REPORT (Agenda Item 13):**

The Head of Treasury and Pensions introduced the report. The Committee will be asked to approve the report at their next meeting.

Having consider the report the Committee:

**That the Committee send any comments on the draft accounts to the Head of Treasury by 6<sup>th</sup> July**

**14. REVIEW OF STRATEGIC ASSET ALLOCATIONS (Agenda Item 14):**

The Hymans Robertson advisor Matt Woodman introduced the report. The current investment strategy retained an acceptable probability of achieving the Committee's objective of full funding. Modelling indicated that tweaking the strategy to include property improved the likely outcomes.

Having consider the report the Committee:

- The Committee noted the report including the exempted information provided and requested that proposals to include property in the investment strategy be discussed at the next meeting.

**15. BARNET COUNCIL PENSION FUND - PERFORMANCE FOR THE QUARTER TO 31 MARCH 2018 (Agenda Item 15):**

The Hymans Robertson advisor Matt Woodman introduced the report. Performance of the two diversified growth funds continues to lag their benchmarks. A fee reduction for the Schroders diversified growth fund had been agreed.

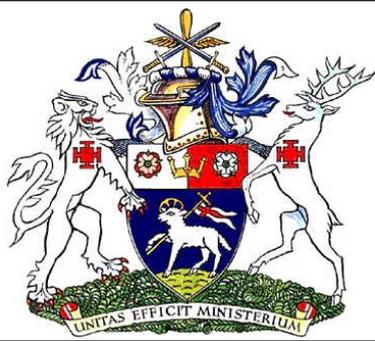
Having considered the report the Committee:

- **Noted the performance of the Pension Fund for the quarter to 31 March 2018.**
- **Noted that Hymans Robertson has downgraded their conviction level for the Newton Real Return Fund.**
- **Requested that fee discussion with Schroders be continued and offered to freeze withdrawals for a 12-month period.**
- **Noted the exempt information**

**16. ANY ITEM(S) THAT THE CHAIRMAN DECIDES IS URGENT (Agenda Item 16):**

There were no urgent items.

The meeting finished at 20:42



## Pension Fund Committee

30 July 2018

<b>Title</b>	<b>Pension Fund Annual Report and Accounts and External Auditor’s Report under International Standard on Auditing (ISA) 260 for the year 2017/18</b>
<b>Report of</b>	Director of Finance
<b>Wards</b>	All
<b>Status</b>	Public
<b>Urgent</b>	No
<b>Key</b>	No
<b>Enclosures</b>	Appendix A – Pension Fund Annual Report 2017/18 and Pension Fund Accounts
<b>Officer Contact Details</b>	George Bruce, Head of Treasury, 0208 359 7126

### Summary

This report considers the detailed report from the external auditors on matters arising from the audit of the 2017/18 Pension Fund Accounts and Annual Report in line with International Standard on Auditing 260 (ISA 260). The Pension Fund accounts are required to be approved and published as part of the Council’s main accounts by 31 July 2018. The external auditors have highlighted that there is a risk that the Pension Fund audit will not be complete by that date.

The draft auditors’ report is not yet available and will be published when it is received from BDO. A verbal update on the status of the audit and audit work outstanding will be provided at the meeting.

## **Recommendations**

### **That the Committee:**

- 1. approve the 2017/18 Annual Report and Pension Fund Accounts;**
- 2. note the matters raised by the external auditor in respect of the audit of the 2017/18 Accounts and Annual Report; and**
- 3. consider whether there are any areas on which they require additional information or action.**

### **1. WHY THIS REPORT IS NEEDED**

- 1.1 Under Section 151 of the Local Government Act 1972 - "...every local authority shall make arrangements for the proper administration of their financial affairs...". Additionally, in accordance with International Standard on Auditing (ISA) 260, the external auditor is required to issue detailed reports on matters arising from the audit of the council's accounts and pension fund accounts. There are also specific legal requirements in relation to the accounts and the annual report as set out in section 5.4 below.

### **2. REASONS FOR RECOMMENDATIONS**

- 2.1 The Committee is requested to consider the report and recommendations to enable the Council to meet its obligations under Section 151 of the Local Government Act 1972 as set out in paragraph 1 above.

### **3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

- 3.1 Not applicable in the context of this report.

### **4. POST DECISION IMPLEMENTATION**

- 4.1 None.

### **5. IMPLICATIONS OF DECISION**

#### **5.1 Corporate Priorities and Performance**

- 5.1.1 A positive external audit opinion on the Pension Fund's Annual Report and Accounts plays an essential and key role in providing assurance that the Pension Fund's financial risks are managed in an environment of sound stewardship and control. This is in line with the aims set out in the Council's Corporate Plan 2015-2020, to ensure that services are delivered efficiently to get value for money for the taxpayer.

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

- 5.2.1 This report sets out the framework for the assessment of the Pension Fund's financial reporting and management as well as value for money.
- 5.2.2 The external audit fees for 2017/18 are £21,000 (£28,000 for 2016/17).
- 5.2.3 In accordance with International Standard on Auditing (ISA) 260, the external auditor is required to issue detailed reports on matters arising from the audit of the Council's accounts and Pension Fund accounts.
- 5.2.4 The ISA 260 report must be considered by "those charged with governance" before the external auditor can sign the accounts, which legally has to be done by 31 July 2018.
- 5.2.5 The external auditor, BDO was presented with draft financial statements in May 2017.
- 5.2.6 It is anticipated that there will be an unqualified opinion on the accounts.

### **5.3 Social Value**

- 5.3.1 Arrangements for proper administration of financial affairs and contributing to the Pension Fund ensures that contributing members have a secured income on retirement.

### **5.4 Legal and Constitutional References**

- 5.4.1 The Accounts and Audit Regulations 2015 require that the authority's accounts for the year 2017/18 are approved by the authority or by a committee and signed by the Chairman of the committee which approved the accounts.
- 5.4.2 The requirement for an administering authority to prepare a Pension Fund Annual Report is contained in Regulation 57 of the Local Government Pension Scheme Regulations 2013.
- 5.4.3 The Council's Constitution (Article 7) – includes within the responsibilities of the Pension Fund Committee,

"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, and

To receive and consider approval of the Pension Fund Annual Report."

### **5.5 Risk Management**

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

### **5.6 Equalities and Diversity**

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

## **5.7 Consultation and Engagement**

5.7.1 Not required.

## **5.8 Insight**

5.8.1 Not applicable in the context of this report.

## **6. BACKGROUND PAPERS**

6.1 Audit plan presented to the Pension Fund Committee on 26 June 2018, agenda item 7.



**PENSION FUND**

# **ANNUAL REPORT**

**2017/18**

## Contents

	<b>Page</b>
1. Trustee's Report	2
1.1 LGPS Regulations	2
1.2. Governance	3
1.3. Management Structure	4
1.4 Risk Management	5
1.5 Financial Performance	6
1.6 Actuarial Funding Level	7
2. Investment Policy	9
3. Management and Performance of the Fund	12
3.1 Fund Performance	12
3.2 Market value of the Fund	13
3.3 Scheme Administration	14
3.4 Membership of the Fund	15
4. Statutory Statements	17
5. Actuary's Statement	18
6. Auditor's Report	20
7. Statement of Responsibilities	22
8 Pension Fund Statement of Accounts	23
 <b>Appendices</b>	
A Governance Compliance Statement	46
B Funding Strategy Statement	56
C Investment Strategy Statement	98
D Communication Policy Statement	108
E Pension Administration Statement	109

## 1. Trustee's Report

### 1.1 Local Government Pension Scheme Regulations

The London Borough of Barnet Pension Fund is part of the national Local Government Pension Scheme (LGPS). It is a contributory defined benefit pension scheme established under statute, which provides for the payment of pension benefits to employees and former employees of the London Borough of Barnet and the admitted and scheduled bodies in the Fund.

The Fund is financed by contributions that employees and employers pay into the Fund to meet the cost of paying pensions at a later date. The Fund builds up assets at the same time as paying out pensions. Employer contributions are set by the Fund's actuary at the actuarial valuation which is done every three years. The last actuarial valuation was completed as at 31 March 2016. The Actuary determines the level of contributions payable by employers that together with other income are expected to enable the fund to acquire sufficient assets to pay benefits as they fall due for payment.

As a statutory pension scheme, it is secure because its benefits are set by law and paid out of a fund which is managed professionally. Should there be insufficient assets, ultimately the Council will be responsible for making up the shortfall. Membership of the pension fund is available to employees of the local authority and other eligible organisations. However, as the benefits are guaranteed by law, and the employees' contribution is fixed, the employers' contribution rates will vary as the Actuary calculates the required level of assets and expectations of future investment income and this can have an adverse effect on the overall employers' budgets.

In the public sector, the individual legal provisions covering many pension schemes were brought together under one Act of Parliament (The Superannuation Act 1972). The regulations appoint major authorities, such as the London Borough of Barnet, to the role of "administering authorities" to manage the scheme at a local level.

The LGPS as introduced in 1972 remained unchanged until 2008 when changes were made to the scheme. More significant changes were introduced in a new look LGPS effective from 1 April 2014. One of the main changes is that a scheme member's pension entitlement for service after 1 April 2014 is no longer based on their final salary but on their earnings throughout their career. This is known as a Career Average Revalued Earnings (CARE) scheme. Benefits built up in the scheme before 1 April 2014 are protected and will continue to be based on the scheme member's final year's pay. The revised benefits payable from the Fund are set out in the Local Government Pension Scheme regulations and in summary are:

- A pension based on career average earnings (revalued in line with the Consumer Prices Index)
- Pensionable pay to include non-contractual overtime and additional hours
- Flexibility for a member to pay 50% contributions for 50% of the pension benefit
- Normal pension age to equal the individual member's State Pension Age
- Option to trade £1 of pension for a £12 tax-free lump sum at retirement
- Death in service lump sum of three times pensionable pay and survivor benefits
- Early payment of pensions in the event of ill health

The Fund is governed by the Public Services Pensions Act 2013 and the LGPS Regulations 2013 (as amended), the LGPS (transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2016.

The Pension Fund is a shareholder in the London Local Government Pension Scheme Collective Investment Vehicle (CIV). The Pension Fund Committee approved the investment of £150,000 as regulatory capital in 2015/16. The Fund has assets of £552 million either in CIV managed pools or in mandates overseen by the CIV. This has delivered considerable savings in fees. It is also consistent with the Government's LGPS pooling ambitions that require local government pension scheme administering authorities to set out their proposals to invest their assets through one of the approved LGPS investment pools.

The content and detail in the pension fund annual report is prescribed by the LGPS Regulations 2013. In publishing this report, the Council as administering authority, sets out the standard of governance and supervision of the fund. It also brings together a number of separate reporting strands into one document to show how the Fund is managed and how it is performing.

To help people save more for their retirement, the Government requires employers to enrol their workers into a workplace pension scheme. This legislation is separate from the Local Government Pension Scheme (LGPS) Regulations and applies to those employees that are not members of the Local Government Pension Scheme, including those who have previously opted out. The automatic enrolment of the Council's workforce into the LGPS came into effect from 1 June 2013. The dates for other participating employers varied. The impact has been a growth in scheme membership.

The Local Pension Board, enacted through the Public Services Pensions Act 2013, has been established as a Council committee to oversee pension fund governance and administration.

## **1.2 Governance Arrangements**

The London Borough of Barnet is the administering authority and scheme manager for the Pension Fund. The Council has delegated responsibility for pension matters to the Pension Fund Committee.

### **Pension Fund Committee**

The Pension Fund Committee is responsible for discharging the Council's leadership and strategic management responsibilities regarding the Pension Fund. The Pension Fund Committee is responsible for all aspects of the governance and administration of the Pension Fund including:

- Complying with regulations and best practice
- Establishing sound systems of control over all the Fund's activities
- Approving and updating the statutory statements that form the appendices to these accounts
- Developing funding and investment policies that will safeguard the interest of scheme members and employers, and
- Appointing and monitoring service providers.

The Pension Fund Committee (the Committee) considers advice from the Section 151 officer, other Council officers, the Scheme Actuary, investment advisor, administrator and fund managers. Membership of the Committee is shown below. The Committee meet four times during the year. Three members of the Committee each were absent from one meeting during the year.

The Governance Compliance statement (appendix A) details the Committee's governance arrangements.

### **Local Pension Board**

At the start of 2015/16 the Council established a local pension board (the Board) in compliance with the requirements of the Public Service Pensions Act. The purpose of the Board is to assist the Council to:

- Secure compliance with LGPS Government regulations and any other legislation relating to the governance and administration of the LGPS,
- secure compliance with the requirements imposed by the Pensions Regulator,
- such other matters as the LGPS regulations may specify, and
- ensure the effective and efficient governance and administration of the Pension Fund.

The Board activities during the year included monitoring the quality of the pension administration services, the Fund's compliance with legislation and regulations and reviewing the management of risk.

## Conflicts of interest

Members of both the Pension Fund Committee and Local Pension Board follow the Code of Conduct for elected members, which sets out how any conflict of interest should be addressed. Declarations of interest are made at each meeting.

### 1.3 Management Structure

#### Administrating Authority

London Borough of Barnet

#### Pension Fund Committee Members 2017/18

Chairman: Councillor Mark Shooter

Vice-Chairman Councillor John Marshall

Members: Councillor Andreas Ioannidis  
Councillor Arjun Mittra  
Councillor Rohit Grover  
Councillor Jim Tierney  
Councillor Peter Zinkin

Substitutes: Councillors : Dean Cohen; Anthony Finn; Ross Houston;  
Adam Langleben; Reema Patel; Stephen Sowerby

Observers: John Burgess Unison  
James Kennedy Middlesex University

#### Local Pension Board

Employer Representatives: Professor Geoffrey Alderman (Chairman)  
Councillor Thomas Smith  
Vacancy

Employee Representatives: Hem Savla (Vice-Chairman)  
Salar Rida  
David Woodcock

Independent: Stephen Ross

Substitute Member: Alice Leech

#### Officers

##### LB Barnet

Anisa Darr Director of Resources and Statutory Section 151 Officer (to December 2017)  
Kevin Bartle Interim Director of Finance and S151 Officer (from December 2017)  
Paul Clarke Head of Finance

#### Capita CSG (Customer and Support Group)

Gillian Clelland Assistant Director of Finance  
George Bruce Head of Treasury

#### Actuary

Hymans Robertson LLP

#### Investment Advisors

Hymans Robertson LLP

**Auditor**  
BDO LLP

**Legal Advisors**  
HB Law

**Performance Monitoring**  
Hymans Robertson  
PIRC

**Custodians**  
JP Morgan

**Pensions Administration Manager**

Colin Barker (to January 2018)

Interim Service Delivery Manager (Pensions), Capita

Scott Harriot (from February 2018)

Employee Benefits, PO Box 215, Mowden Hall, Darlington, DL3 9GT

**1.4 Risk Management**

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. The Local Pension Board's terms of reference included oversight of risk management processes.

In order to manage risks, a Pension Fund risk register is maintained and reviewed by both the Committee and Board.

The Fund's primary long-term risk is that its assets fall short of its liabilities such that there are insufficient assets to pay the promised benefits to members leading to contribution increases for employers. The investment and funding policies have been developed in conjunction with the actuary and investment advisor to provide a reasonable probability of achieving full funding and offering stability of contributions to employers.

## 1.5 Financial Performance

The Fund asset value increased by £44.411 million in the year to £1,096.568 million. There was an inflow of £5.818 million from dealings with members, expenses of £5.87 million were incurred and a return from investments of £44.463 million.

The table below summarises the change in the fund value over the last four years:

	2014-15 £'000	2015-16 £'000	2016-17 £'000	2017-18 £'000
<b>Dealing with members</b>				
Contributions	-56,572	-54,238	-59,564	-60,265
Pensions	49,730	56,002	56,644	54,447
<b>Net (additions) from dealings with members</b>	<b>-6,842</b>	<b>1,764</b>	<b>-2,920</b>	<b>-5,818</b>
Management expenses	4,514	5,095	4,904	5,870
Investment income	-29	-12	-1,620	-2,405
Change in market value	-90,520	5,725	-136,188	-42,058
<b>Net (increase) in the Fund</b>	<b>-92,877</b>	<b>12,572</b>	<b>-135,824</b>	<b>-44,411</b>

Contributions have increased due to a rise in active membership, partly due to auto-enrolment, and revised employers' contribution rates following the 2016 triennial valuation. Pensions are impacted by inflation and increases in the numbers of pensioners. Transfers out are variable year to year and declined by £1.6 million in 2017-18.

Most investment income is reinvested and included within the change in market value of investments. Investment markets have risen strongly over the last four years as reflected in the table above.

The table below summarises the change in net assets of the fund available to pay benefits over the last four years.

Net Asset Statement	2014-15 £'000	2015-16 £'000	2016-17 £'000	2017-18 £'000
Pooled funds	910,564	900,163	1,014,952	1,074,130
Cash	1,160	2,609	23,920	3,505
Investment in London CIV	0	150	150	150
Current Assets	14,137	15,935	14,524	21,080
Current Liabilities	-3,202	-2,524	-1,389	-2,297
<b>Total Net Assets</b>	<b>922,659</b>	<b>916,333</b>	<b>1,052,157</b>	<b>1,096,568</b>

The asset value has increased reflecting gains in investments. All investments are held in pooled funds. Further details of investments are given in section 2.

The table below details the scheme expenses in the last two years:

	2016-17		2017-18	
	£'000	£'000	£'000	£'000
Administration		466		465
Investment Management				
Management Fees	2,772		3,425	
Performance related Fees	0		387	
Custody fees	13		15	
Transaction Costs	0		646	
		2,785		4,473
Oversight & Governance				
Actuarial	138		79	
Investment Advice	146		105	
Audit	28		28	
Council officers recharge	909		714	
other	432		6	
		1,653		932
<b>Total</b>		<b>4,904</b>		<b>5,870</b>

The prior year allocations have been altered to be consistent with the current year definitions. In particular, Council recharges in respect of staff not involved directly in dealing with member (£0.909 million) have been shown as oversight & governance rather than administration. In addition, investment advisor's fees (£146,000) have been moved from investment management to governance.

For the first time, costs incurred via pooled vehicles have been identified and included within costs. These represent costs of £3.049 million in 2017-18. Historically most investment fees were billed directly. This is no longer true, with only Legal & General and Schroders issuing fee invoices. The other funds all charge their costs directly to the value of investments. The Newton mandate switched to internal fee recovery when the mandate was moved to the London CIV (2016-17 costs £0.733 million). Directly charged fees also reduced by £463,000 following a reduction of assets managed by Schroders.

The Pension Fund Committee and officers monitor costs and challenge fund managers. The London CIV has successfully negotiated lower fees for Legal and General and Newton. Post year-end Schroders have implemented a fee reduction.

Actuarial and investment advisory fees were lower in 2017-18. The prior year was impacted by the cost of the 2016 triennial valuation and of selecting new funds.

## 1.6 Actuarial Funding Level

The actuary to the Fund for the year was Hymans Robertson. The actuary's role is to place a value on the Fund's accumulated pension promises. A formal valuation of the Fund is required legally every three years; the most recent valuation of the Fund took place as at 31 March 2016.

The funding level at 31 March 2016 was 73%. This corresponded to a shortfall on the funding target of £339 million. The primary contribution rate for 2017/18 was 17.9% of pensionable pay plus a secondary

contribution of £13.374 million. For 2018/19 the secondary contribution increases to £14.684 million. This is the average required employer contribution to achieve 66% probability of returning to a fully funded position over 20 years. The next triennial actuarial valuation will be as at 31<sup>st</sup> March 2019 with a revised contribution schedule effective from 1<sup>st</sup> April 2020.

DRAFT

## 2. Investment Policy

The Council, through the Pension Fund Committee, is responsible for the investment of the Fund's assets and agreeing the investment policy within the regulations covering local authority pension schemes. The responsibility for the day to day management of the Fund's assets is exercised via the selection of self-managed pooled funds who are regulated by the Financial Conduct Authority. The role of appointing and monitoring of investment funds is shared with the London CIV.

The pooled funds into which the Committee invests appoint investment managers to manage the assets of the fund by buying and selling investments in order to achieve their specific objectives as set out in their governing documentation. In choosing investments, the investment managers must have regard to the overall suitability of investments in accordance with the fund's aims and objectives. This section provides a summary of the current arrangements for investment of the London Borough of Barnet's Pension Fund.

### Investment Report

As at 31 March 2018, the value of the Fund's investment assets was £1,077.8 million. This represents an increase of £38.8 million compared with the previous year reflecting the returns generated by investment managers and the modest improvements in equity markets in the last 12 months.

During the year the following changes were made to the investment strategy:

Global listed equities	+4%
Illiquid alternatives	+6%
Diversified growth funds	-2%
UK corporate bonds	-2%
Multi asset credit	-6%

The Pension Fund Committee continues to work with Hymans Robertson to improve the expected outcome from the investment strategy and the revised allocations are based on modelling undertaken by Hymans that considers the range of funding levels for each possible strategy and seeks to balance maximising the probability of achieving full funding with avoiding very poor outcomes.

The fund's investment strategy and investments as at 31<sup>st</sup> March 2018 are given in the table below.

During the year new Commitments were made to the following three funds:

Insight / IIFIG Secured Finance Fund £40 million

Partners Multi Asset Credit 2017 £30 million

M&G Lion Credit Opportunities Fund £30 million

Fund investments are often drawn in stages as investment opportunities become available and during the year £136.8 million was invested. In addition to fully funding the Insight and M&G funds mentioned above, drawdown were made by Partners MAC 2017 (£10.5m), IFM Infrastructure (£45.4m) and Clareant European Direct Lending (£10.9m).

Funding for these mandates was from disposing of the holdings in Schrodgers Strategic Bond Fund (£94.5m), partial realisations of the two diversified growth funds (£15.8m), a reduction in cash balances (£20.3m) and distributions from Partners MAC 2015 (£6.2m).

### Benchmark

The prime performance objective of the Fund is to achieve the return required to fund the Scheme's liabilities over the medium to long term, as assumed in the ongoing actuarial valuation. The performance targets for each investment are detailed below.

Performance against this benchmark is measured, from an investment perspective, on a quarterly basis by Hymans Robertson LLP, the Investment Advisor to the Fund.

The Fund also subscribes to an independent investment performance measurement service in order to assess the rate of return achieved and the relative performance against other local authority pension funds that operate under the same regulations. This service is provided by PIRC.

## Investment Allocation

Asset class / Investment Manager	Benchmark	Benchmark Proportion	Target
<b>Equity</b>		<b>40%</b>	
LGIM	FTSE All World Index	20%	Track within +/- 0.5% p.a. the index for 2 years in every 3
LGIM	FTSE RAFI All World Equity GBP Hedged Index	20%	
<b>Divsified Growth Fund</b>		<b>20%</b>	
Schroder DGF	CPI plus 5% p.a.	10%	To outperform the benchmark over a market cycle (typically 5 years) to outperform the benchmark over a rolling 5 years
Newton Real Return	1 month LIBOR plus 4% p.a.	10%	
<b>Corporate Bonds</b>		<b>10%</b>	
Schroders All Maturities Corporate Bond Fund	Merrill Lynch Sterling Non-Gilts All Stocks Index	10%	To outperform the benchmark by 0.75% p.a. (gross of fees) over a rolling 3 years
<b>Liquid Multi-Asset Credit</b>		<b>11%</b>	
Alcentra - Clareant Global Multi Credit	3 month LIBOR plus 4% p.a.	3.50%	To outperform the benchmark over a market cycle (typically 5 years)
Baring Global High Yield Credit Strategies	3 month LIBOR plus 5% p.a.	3.50%	To outperform the benchmark over a market cycle (typically 5 years)
Insight - IIFIG Secured Finance	3 month LIBOR plus 4% p.a.	4%	To outperform the benchmark over a market cycle (typically 5 years)
<b>Illiquid Alternatives</b>		<b>19%</b>	
Partners Multi Asset Credit 2015	3 month LIBOR plus 4% p.a.	4%	Over the life of the fund
Partners Multi Asset Credit 2017	3 month LIBOR plus 4% p.a.	3%	Over the life of the fund
Alcentra - Clareant Direct European Lending	8-10% per annum	4%	Over the life of the fund
M&G Lion Credit			
Opportunities Fund	3 month Libor plus 2%	3%	Over the life of the fund
IFM Global Infrastructure	8-10% per annum	5%	Over the life of the fund
		<b>100%</b>	

## Investment Ranges

Prior to the adoption of the first investment strategy statement (ISS) in March 2017 the Pension Fund had to abide by the maximum allocations to asset classes specified in the Local Government Pensions (Management and Investment of Funds) Regulations 2009. On adoption of the ISS these limitations were replaced by those set in the ISS, which are shown below together with the actual and benchmark proportions as at 31 March 2018:

Asset class	Actual Proportion	Benchmark Proportion	Maximum Allocation
Global Equity	39.6%	40%	44%
Diversified growth funds	24.9%	20%	28%
Liquid Multi-asset credit	10.5%	11%	14%
Corporate bonds	10.8%	10%	13%
Illiquid alternatives	13.9%	19%	23%
Cash	0.3%	0%	n/a
	<u>100.0%</u>	<u>100%</u>	

There were no breaches of these limits during the year.

## Independent Advisor

The Pension Fund Committee and Council Officers receive investment advice from the investment advisor to the fund, Hymans Robertson LLP. The role of the advisor is to attend the quarterly and annual meetings of the Committee and to provide advice on the following:

1. Investment strategy
2. Strategic asset allocation
3. Development of investment policy and practices
4. Corporate governance issues, including socially responsible investment and the Council's Investment Strategy Statement
5. Pension fund related legislation
6. Investment management performance monitoring
7. Assistance in the selection of investment managers, custodians and actuaries
8. Review of and advice on alternative benchmarks and setting of performance targets
9. Other ad-hoc advice.

## Custodian

When assets are held in segregated portfolios it is necessary to appoint a custodian whose role is to hold title on behalf of the scheme, settle transactions, collect income, vote etc. The Barnet Pension Fund no longer has any segregated mandates, investing only in pooled funds, and as a consequence does not require the services of custodians. JP Morgan is retained to provide limited custody services for the

Schroder's managed funds. The contract with Bank of New York Mellon was terminated when the Newton assets were transferred to the London CIV.

Each pooled fund will have their own custodian who carry out the duties outlined above and may also act as fund administrator, maintaining the shareholders records for each fund. These custodians are appointed and monitored by either the fund sponsor or fund directors depending on the legal structure.

## Voting

When investing through funds, voting rights rest with the fund or its appointed fund managers. The committee and officers discuss voting with the fund sponsors but are not able to direct how votes are cast.

### 3. Management and Financial Performance of the Fund for the Year 2017/18

#### 3.1 Fund Performance

Over the 12 months to 31 March 2018, the Fund returned 3.3% (net of fees) versus a combined benchmark return of 4.7%.

The table below details the Fund's performance for the 12 months, 3 and 5 years to 31 March 2018.

	1 year (%)	3 years (% p.a.)	5 years (% p.a.)
<b>Total Fund</b>	3.3%	5.6%	6.3%
<b>Combined benchmark</b>	4.7%	7.4%	7.3%
<b>Relative</b>	-1.3%	-1.7%	-1.0%

Note: Total Fund performance excludes cash holding.

It is important to note that the Scheme's diversified growth and multi-credit mandates are all benchmarked against 'cash plus' performance objectives. These types of performance objectives, e.g. LIBOR + 4% p.a. are broadly in line with a long-term expected return from equities and so are less helpful for measuring short and medium-term performance and in particular the relative performance of the Fund over a 12-month period.

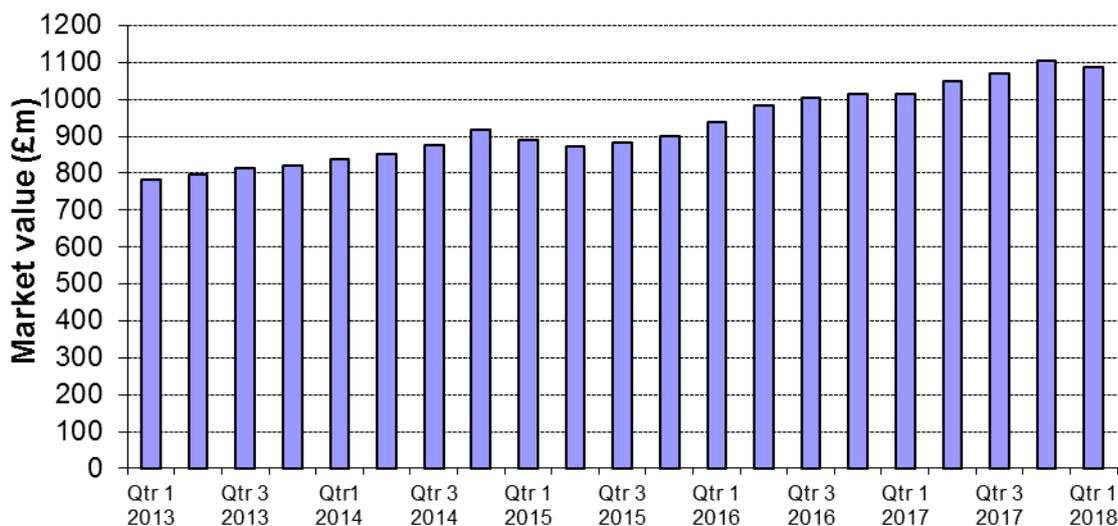
## Performance Summary (Net of fees)

		LGM Global Equity	Alcentra Multi-Credit	Newton Real Return Fund	Schroder Life Diversified Growth Fund	Barings Multi-Credit	Insight Secured Finance Fund	M&G ABS Alternative Credit Fund	Schroder All Maturities Corporate Bond Fund	Schroder ISF Strategic Bond Fund	Total Fund
3 Months (%)	Absolute	-3.9	0.8	-2.4	-1.0	0.3	1.1	0.9	-1.5	1.8	-2.2
	Benchmark	-3.9	1.1	1.1	1.4	1.4	1.1	0.8	-1.2	0.2	-1.2
	Relative	0.0	-0.3	-3.5	-2.3	-1.1	0.0	0.3	-0.4	1.5	-1.0
12 Months (%)	Absolute	4.9	4.4	-1.9	4.7	3.9	N/A	4.7	2.1	2.0	3.3
	Benchmark	5.0	4.5	4.4	7.6	5.4	N/A	2.2	1.3	2.0	4.7
	Relative	-0.1	0.0	-8.0	-2.7	-1.4	N/A	2.5	0.7	0.0	-1.3
3 Years (% p.a.)	Absolute	9.0	N/A	0.5	3.0	N/A	N/A	N/A	4.5	N/A	5.6
	Benchmark	8.5	N/A	4.5	7.6	N/A	N/A	N/A	3.6	N/A	7.4
	Relative	0.5	N/A	-3.8	-4.2	N/A	N/A	N/A	0.8	N/A	-1.7
Since Inception (% p.a.)	Absolute	9.8	7.6	2.6	4.5	8.5	4.5	N/A	6.7	2.5	6.1
	Benchmark	9.9	4.5	4.5	7.7	5.5	3.4	N/A	6.5	2.3	7.6
	Relative	-0.1	3.0	-1.9	-3.0	2.8	1.1	N/A	0.2	0.2	-1.3

## 3.2 Market Value of the Fund

The following chart shows the movement in the market value of the investments in the Fund from 31 March 2013 to 31 March 2018 (five years).

Market value of Pension Fund



### 3.3 Scheme Administration

Administration of the Pension Scheme is provided by Capita Employee Benefits. The performance table below shows the range of work undertaken.

Case Group	Local Pensions Board - Agreed LGPS Performance Targets	Achieved %
<i>Change of details</i>	Process change to member details within 10 days of receipt of request	95.61%
<i>Enquiries</i>	Provide response to member or beneficiary within 10 days of receipt of correspondence	97.03%
<i>Request for Estimate of Benefits</i>	Issue benefit quotation within 10 days of receipt of request	93.48%
	Provide statement of Preserved Benefits within 20 days of notification of exit	84.90%
<i>Leavers on Termination/Opting out</i>	Process payment of refund of contributions within 10 days of receipt of notification	
	Process payment of transfer value within 10 days of receipt of all relevant documentation	
<i>New Starters</i>	Creation of system record within 4 days of receipt of notification	91.36%
<i>Retirements</i>	Issue retirement quote to members 7 months prior to their normal retirement date	78.65%
	Issue retirement quote within 10 days of receipt of request	
	Process payment of pension lump sum on normal retirement date of within 10 days of receipt of preferred options where appropriate	
<i>Transfers In</i>	Issue request for transfer details to previous scheme within 5 days of receipt of new starter details	87.50%
	Issue receipt for payment of transfer value within 10 days of receipt of member's confirmation to proceed	
	Update member record with details of transfer in within 7 days of receipt of transfer value payment	
<i>Transfers Out</i>	Provide details of deferred pension and transfer value within 20 days of receipt of request from new scheme	88.40%
	Process payment of transfer value within 10 days of receipt of member's confirmation to proceed	
<i>Bereavements</i>	Issue initial correspondence to beneficiary following notification of death within 5 days	88.06%
	Issue details of benefits payable on death within 5 days of receipt of completed documentation	
	Process payment of death lump sum within 5 days of receipt of documentation	
<i>Other</i>	issue appropriate documentation / response to requests for information within 10 days of receipt of request	97.11%

### 3.4 Membership of the Pension Fund 2017/18

	31 March 2018	31 March 2017 (restated)
<b>Number of employers with active members</b>	65	65
<b>Number of employees in scheme</b>		
London Borough of Barnet	5,166	5,110
Other employers	3,762	3,719
<b>Total</b>	8,928	8,829
<b>Number of pensioners</b>		
London Borough of Barnet	5,156	5,113
Other employers	2,683	2,607
<b>Total</b>	7,839	7,720
<b>Deferred pensioners</b>		
London Borough of Barnet	6,616	6,441
Other employers	3,661	3,497
<b>Total</b>	10,277	9,938
<b>Total number of members in pension scheme</b>	<b>27,044</b>	<b>26,487</b>

NB: Membership as at 31 March 2017 has been restated to incorporate late notifications of change of status.

**Admitted Bodies – organisations that participate in the Fund under an admission agreement between the Fund and the organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector:**

Absolutely Catering (2)	Green Sky (2)	NSL Ltd
Allied Healthcare	Greenwich Leisure	Oaklodge
Barnet Education Arts Trust	Hartwig (2)	OCS Group UK Ltd
Capita CSG	Hestia	Optivo (Viridian Housing)
Capita DRS	ISS	Ridge Crest Cleaning
Freemantle Trust	Mears Group	

NB Contractors with more than one contract are counted as multiple employers

**Scheduled Bodies – local authorities and similar bodies whose staff are automatically entitled to be members of the Fund:**

Alma Primary School Archer Academy Ashmole Academy Barnet & Southgate College Barnet Homes Barnfield Primary School Bishop Douglass School Broadfields Academy Cambridge Education Christ College Claremont Primary School Compton Academy Copthall Academy Deansbrook Junior Academy Dollis Junior School East Barnet Academy	ETZ Chaim Jewish Primary Finchley Catholic School Grasvenor Avenue Infant Hasmonean High School Hendon School Henrietta Barnett School Hyde School Independent Jewish Day School London Borough of Barnet London Academy Menorah Foundation School Middlesex University Mill Hill County High School Osidge Primary School Parkfield Primary School Queen Elizabeth's Boys' School	Queen Elizabeth's Girls' School Rimon Jewish Primary School Rosh Pinah Primary School St Andrew the Apostle School St James' School St Mary's & St John's Primary St Michael's Grammar School Totteridge Academy Underhill Infant School Whitefield Trust School Woodhouse College Academy Wren Academy Your Choice Barnet
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#### 4. Statutory Statements

The Pension Fund Committee has approved the statutory statements required by scheme regulations. Copies are included with the Annual Report and Accounts:

Governance Compliance Statement	appendix A
Funding Strategy Statement	appendix B
Investment Strategy Statement	appendix C
Communications Policy	appendix D
Pension Administration Strategy	appendix E

#### Comments

We welcome and value your comments on the standards of service we provide. If you have any comments please contact us.

[barnetpensions@capita.co.uk](mailto:barnetpensions@capita.co.uk)

Address: London Borough of Barnet Pension Fund, PO Box 319, Darlington, DL98 1AJ

Telephone: 01325 746010/11/12/13/14

#### On behalf of the Pension Fund Committee

Councillor Mark Shooter

Chairman of the Pension Fund Committee

London Borough of Barnet Pension Fund

# London Borough of Barnet Pension Fund (“the Fund”) Actuarial Statement for 2017/18

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

## Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS), dated March 2017. In summary, the key funding principles are as follows:

- 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 (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.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% chance that the Fund will return to full funding over 20 years.

## Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund’s assets, which at 31 March 2016 were valued at £916 million, were sufficient to meet 73% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £339 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers’ contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund’s funding policy as set out in its FSS.

## Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

## Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

### Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.2%
Salary increase assumption	2.4%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.9 years	24.3years
Future Pensioners*	23.9 years	26.5 years

\*Aged 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

### Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities and there have been strong asset returns, particularly during 2016/17. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.



Peter Summers FFA

For and on behalf of Hymans Robertson LLP

4 May 2018

Hymans Robertson LLP

20 Waterloo Street, Glasgow, G2 6DB

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE COUNCIL OF LONDON  
BOROUGH OF BARNET**

**[To follow]**

**[Auditor's Report, page 2, to follow]**

## STATEMENT OF RESPONSIBILITIES

### PENSION FUND’S RESPONSIBILITIES

London Borough of Barnet Pension Fund is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In London Borough of Barnet Pension Fund, that officer is the chief finance officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

### CHIEF FINANCE OFFICER’S RESPONSIBILITIES

The chief finance officer is responsible for the preparation of London Borough of Barnet Pension Fund Statement of Accounts in accordance with proper practices as set out in the CIPFA *Code of Practice on Local Authority Accounting in the United Kingdom 2017-18* (the Code).

In preparing this Statement of Accounts, the chief finance officer has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the CIPFA Code of Practice.
- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

### CHIEF FINANCE OFFICER CERTIFICATE

I certify that the Pension Fund Statement of Accounts 2017/18 present a true and fair view of the financial position of the London Borough of Barnet Council Pension Fund (the Balance Sheet) and its income and expenditure for the year ended 31 March 2018.

**Signed:**.....

**Date:**  
**Kevin Bartle**  
**Director of Finance and Section 151**  
**Officer**

### CHAIRMAN OF PENSION FUND COMMITTEE CERTIFICATE

In accordance with the Accounts and Audit (England) Regulations 2015, I certify that the Statement of Accounts was approved by the Pension Fund Committee.

**Councillor:**.....

**Date:**  
**Mark Shooter**  
**Chairman, Pension Fund Committee**

## MAIN STATEMENTS

## FUND ACCOUNT

		2017/18	2016/17
	Notes	£000	£000
<b>Dealings with members, employers and others directly involved in the fund</b>			
Contributions	6	(57,533)	(58,614)
Transfers in from other pension funds	7	(2,732)	(950)
		<b>(60,265)</b>	<b>(59,564)</b>
Benefits	8	50,467	51,067
Payments to and on account of leavers	9	3,980	5,577
		<b>54,447</b>	<b>56,644</b>
<b>Net (additions)/withdrawals from dealings with members</b>		<b>(5,818)</b>	<b>(2,920)</b>
Management expenses	10	5,870	4,904
<b>Net additions/withdrawals including fund management expenses</b>		<b>52</b>	<b>1,984</b>
<b>Returns on investments</b>			
Investment income	11	(2,405)	(1,620)
Change in market value during the year	13	(42,058)	(136,188)
<b>Net return on investments</b>		<b>(44,463)</b>	<b>(137,808)</b>
<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		<b>(44,411)</b>	<b>(135,824)</b>
Opening net assets of the scheme		1,052,157	916,333
<b>Closing net assets of the scheme</b>		<b>1,096,568</b>	<b>1,052,157</b>

## NET ASSETS STATEMENT

		31 March 2018	31 March 2017
	Notes	£000	£000
Investment assets	13	1,077,635	1,038,872
Long term investments	13	150	150
<b>Total net investments</b>		<b>1,077,785</b>	<b>1,039,022</b>
Current assets	17	21,080	14,524
Current liabilities	18	(2,297)	(1,389)
<b>Net assets of the fund available to fund benefits at the end of the reporting period</b>		<b>1,096,568</b>	<b>1,052,157</b>

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 21.

## NOTES TO THE PENSION FUND ACCOUNTS

### 1. DESCRIPTION OF THE FUND

The London Borough of Barnet Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS). The Fund is administered by the London Borough of Barnet (LBB) and the Council is the reporting entity for the Fund.

The day to day administration of the Fund and the operation of the management arrangements and investment portfolio are delegated to the Chief Finance Officer (Section 151 Officer) of the Council.

The following description of the Fund is a summary only. For more detail, reference should be made to the *London Borough of Barnet Pension Fund Annual Report 2017/18* and the underlying statutory powers underpinning the scheme.

#### General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by the LBB Council to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies.

A government scheme supplies teachers' pensions and as such they are not provided for under these arrangements.

The Fund's accounts provide information on the financial position, investment performance and risk showing the results of the Council's stewardship in managing the resources entrusted to it. The Fund is overseen by the Pension Fund Committee which is specifically set up as a committee of the London Borough of Barnet Council and has authority under the Council's constitution to approve the Pension Fund Annual Report and Pension Fund Statement of Accounts.

#### Membership

Membership of the LGPS is voluntary and employees, including non-teaching staff in schools, are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements (except teachers, who have a separate scheme). Organisations participating in the Fund are classed as admitted and scheduled bodies:

- Admitted Bodies – organisations that participate in the Fund under an admission agreement between the Fund and the organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector
- Scheduled Bodies – local authorities and similar bodies whose staff are automatically entitled to be members of the Fund

The numbers of members have been extracted from the underlying membership records in the live system as at 31 March 2018, including the comparative figures. An analysis of membership movement in the year is provided in the note below.

The number of employees contributing to the Fund increased during the year from 8,829 to 8,928 at 31 March 2018. During the same period, the number of pensioners increased from 7,720 to 7,839 and the number of deferred pensioners increased from 9,938 to 10,277. The numbers for 31 March 2017 shown in the table (and quoted above) have been restated to incorporate late notified member movements. Membership recorded in last year's accounts as at 31 March 2017 were actives: 8,428, pensioners: 7,730 and deferred: 10,345

	31 March 2018	31 March 2017 (restated)
<b>Number of employers with active members</b>	65	65
<b>Number of employees in scheme</b>		
London Borough of Barnet	5,166	5,110
Other employers	3,762	3,719
<b>Total</b>	8,928	8,829
<b>Number of pensioners</b>		
London Borough of Barnet	5,156	5,113
Other employers	2,683	2,607
<b>Total</b>	7,839	7,720
<b>Deferred pensioners</b>		
London Borough of Barnet	6,616	6,441
Other employers	3,661	3,497
<b>Total</b>	10,277	9,938
<b>Total number of members in pension scheme</b>	<b>27,044</b>	<b>26,487</b>

## Funding

The Fund is financed by contributions from employers, employees and the income from the Fund's investments. The funding policy aims to ensure that the assets held by the scheme in the future are adequate to meet accrued liabilities, allowing for future increases in pay and pensions.

Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2018. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. These are tabled in the actuarial valuation report

## Benefits

The Fund is operated as a funded, defined benefit occupational pension scheme which provides for the payment of benefits to former employees of LBB and those bodies admitted to the Fund referred to as "members". The benefits include not only retirement pensions, but also widows' pensions, death grants and lump sum payments.

## 2. BASIS OF PREPARATION

The statement of accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Fund account – revenue recognition

#### Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Augmentation contributions are accounted for when the contributions are receivable, which is mainly when the relevant benefits are paid.

#### Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

#### Investment income

- **Distributions from pooled funds** are recognised at the date of payment. Should there be a timing delay between the date the net asset value is reduced to reflect the distribution and the date of receipt, the income is disclosed in the net assets statement as a current financial asset.
- **Movement in the net market value of investments**-changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

### 3.2 Fund account – expense items

#### Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

#### Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the

proceeds of investments sold. As the London Borough of Barnet is the administrating authority of the Fund, VAT input tax is recoverable on all Fund activities.

### Management expenses

The Code does not require any breakdown of Pension Fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016).

- All **administrative expenses** are accounted for on an accruals basis. Associated management, accommodation and other overheads are apportioned to this activity, based on estimated time spent, and charged as expenses to the Fund. A proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.
- All **oversight and governance expenses** are accounted for on an accruals basis. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.
- All **investment management expenses** are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. A proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.

### 3.3 Net assets statement

#### Financial assets

Financial assets are included in the net assets statement on a fair value or cost basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised in the Fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13. For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016). Further details are provided by note 14.

#### Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

#### Financial liabilities

The Fund recognises financial liabilities at amortised cost as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

### **Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

### **Additional voluntary contributions**

The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension Fund. The Fund has appointed Prudential and Aviva as its AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (note 19).

## **4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

The net pension Fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 17.

These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

## 5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The item in the net assets statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows.

### Actuarial present value of promised retirement benefits

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are protected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Fund managers with expert advice about the assumptions to be applied. Sensitivity analysis and the effects of changes in individual assumptions on the net pension liability are shown in Note 21.

## 6. CONTRIBUTIONS RECEIVABLE

### By category

	31 March 2018	31 March 2017
	£000	£000
<b>Employees' contributions:</b>	<b>(11,155)</b>	<b>(10,962)</b>
<b>Employers' contributions:</b>		
Normal contributions	(37,658)	(34,840)
Deficit recovery contributions	(5,097)	(5,496)
Augmentation contributions	(3,623)	(7,316)
<b>Total employers' contributions</b>	<b>(46,378)</b>	<b>(47,652)</b>
<b>Total contributions receivable</b>	<b>(57,533)</b>	<b>(58,614)</b>

### By authority

	31 March 2018	31 March 2017
	£000	£000
London Borough of Barnet	(29,838)	(30,351)
Scheduled bodies	(22,033)	(24,269)
Admitted bodies	(5,662)	(3,994)
<b>Total contributions receivable</b>	<b>(57,533)</b>	<b>(58,614)</b>

Included within employer's normal contributions for 2017/18 are deficit contributions of £9.245 million (2016/17: £11.820 million) paid by employers by way of combined normal and deficit contributions.

## 7. TRANSFERS IN FROM OTHER PENSION FUNDS

	31 March 2018	31 March 2017
	£000	£000
Individual transfers	(2,732)	(950)
<b>Total transfers in from other Pension Funds</b>	<b>(2,732)</b>	<b>(950)</b>

## 8. BENEFITS PAYABLE

### By category

	31 March 2018	31 March 2017
	£000	£000
Pensions	43,156	44,603
Commutation and lump sum retirement benefits	6,656	5,723
Lump sum death benefits	655	741
<b>Total benefits payable</b>	<b>50,467</b>	<b>51,067</b>

### By authority

	31 March 2018	31 March 2017
	£000	£000
London Borough of Barnet	34,175	34,863
Scheduled bodies	12,378	10,892
Admitted bodies	3,914	5,312
<b>Total benefits payable</b>	<b>50,467</b>	<b>51,067</b>

## 9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2018	31 March 2017
	£000	£000
Refunds to members leaving service	97	150
Individual transfers	3,883	5,427
<b>Total payments to and on account of leavers</b>	<b>3,980</b>	<b>5,577</b>

**10. MANAGEMENT EXPENSES**

	31 March 2018	31 March 2017
	£000	£000
Administrative costs	465	466
Investment management expenses	4,473	2,785
Oversight and governance costs	932	1,653
<b>Total management expenses</b>	<b>5,870</b>	<b>4,904</b>

**10A. INVESTMENT MANAGEMENT EXPENSES**

	31 March 2018	31 March 2017
	£000	£000
Management fees	3,424	2,772
Performance related fees	387	0
Custody fees	15	13
Transaction costs	647	0
<b>Total investment management expenses</b>	<b>4,473</b>	<b>2,785</b>

**11. INVESTMENT INCOME**

	31 March 2018	31 March 2017
	£000	£000
Pooled investments – unit trusts and other managed funds	(2,357)	(1,582)
Interest on cash deposits	(48)	(38)
<b>Total investment income</b>	<b>(2,405)</b>	<b>(1,620)</b>

**12. AUDIT COSTS**

	31 March 2018	31 March 2017
	£000	£000
Payable in respect of external audit	21	28
<b>Total external audit costs</b>	<b>21</b>	<b>28</b>

## 13. INVESTMENTS

2017/18	Market value	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value
	1 April 2017				31 March 2018
	£000	£000	£000	£000	£000
<b>Investment assets:</b>					
Pooled investments	1,014,952	136,777	(119,657)	42,058	1,074,130
Money market funds	23,900	67,168	(87,568)	0	3,500
Long term investments	150	0	0	0	150
	<b>1,039,002</b>	<b>203,945</b>	<b>(207,225)</b>	<b>42,058</b>	<b>1,077,780</b>
Other investment balances:					
Cash deposits	20				5
<b>Net investment assets</b>	<b>1,039,022</b>				<b>1,077,785</b>

2016/17	Market value	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value
	1 April 2016				31 March 2017
	£000	£000	£000	£000	£000
<b>Investment assets:</b>					
Pooled investments	900,163	120,193	(141,592)	136,188	1,014,952
Money market funds	2,502	77,000	(55,602)	0	23,900
Long term investments	150	0	0	0	150
	<b>902,815</b>	<b>197,193</b>	<b>(197,194)</b>	<b>136,188</b>	<b>1,039,002</b>
Other investment balances:					
Cash deposits	107				20
<b>Net investment assets</b>	<b>902,922</b>				<b>1,039,022</b>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year and any income attributed to the unitised funds that has been retained by the funds and reinvested.

For 2017/18, transaction costs are included in investment management expenses (note 10A). In previous years transactions were not separately provided to the scheme and were reflected in the change in market value during the year.

**13A. ANALYSIS OF INVESTMENTS**

	31 March 2018	31 March 2017
	£000	£000
<b>Pooled funds – additional analysis</b>		
<b>UK</b>		
Unit trusts	425,658	538,864
UK managed funds	648,472	476,088
Money market funds	3,500	23,900
	<b>1,077,630</b>	<b>1,038,852</b>
Long term investments	150	150
Cash deposits	5	20
<b>Total investment assets</b>	<b>1,077,785</b>	<b>1,039,022</b>
<b>Net investment assets</b>	<b>1,077,785</b>	<b>1,039,022</b>

All investments are held through managed pooled entities and comprise underlying investments that are domiciled in both the UK and overseas. A breakdown of underlying investment by country of domicile has not been provided as domicile may not represent the geographic sources of economic exposure.

**13B. INVESTMENTS ANALYSED BY FUND MANAGER**

	Market value	31 March 2018	Market value	31 March 2017
	£000	%	£000	%
Legal and General	425,657	39.4	405,190	39.0
Schroder Investment Management	259,541	24.1	353,799	34.1
LCIV NW Real Return Fund	125,948	11.7	133,673	12.9
Alcentra	61,093	5.7	47,940	4.6
Partners Group	43,624	4.0	38,171	3.7
Barings	37,556	3.5	36,199	3.5
Insight Investments	41,528	3.9	0	0.0
M&G Investments	30,977	2.9	0	0.0
IFM Investors	48,211	4.5	0	0.0
London Collective Investment Vehicle (Share Capital)	150	0.0	150	0.0
Standard Life	3,500	0.3	23,900	2.3
	<b>1,077,785</b>	<b>100.0</b>	<b>1,039,022</b>	<b>100.0</b>

The following investments represent more than 5% of the net assets of the scheme. These funds are registered in the UK.

	31 March 2018		31 March 2017	
	£000	as % of investment assets	£000	as % of investment assets
Legal and General RAFI 3000 Tracker Fund	215,638	20.8	201,179	19.4
Legal and General Global Equity Tracker Fund	177,237	17.1	173,017	16.7
Schroder Life Diversified Growth Fund	142,284	13.7	144,586	13.9
LCIV NW Real Return Fund	125,948	12.1	133,673	12.9
Schroder All Maturities Corporate Bond Fund	117,252	11.3	114,694	11.0
Schroder Strategic Bond	0	0.0	94,500	9.1

### 13C. FAIR VALUE – BASIS OF VALUATION

Financial assets are shown in the Net Asset Statement at Fair Value. Fair Value has been determined as:

- Unit trust investments are stated at the latest closing bid prices quoted by their respective managers as at 31 March 2018.
- UK managed funds are stated at net asset value as calculated by their respective managers as at 31 March 2018.

### 13D. FAIR VALUE – HIERARCHY

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

#### Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and exchange traded quoted unit trusts.

#### Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value. This included unit trusts priced by the fund managers that are not held as exchange traded funds.

#### Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

31 March 2018			
	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs
	Level 1	Level 2	Level 3
	£000	£000	£000
<b>Financial Assets</b>			
Investment assets (excluding cash)	260,296	671,995	141,989
Cash	3,505		
<b>Total financial assets</b>	<b>263,801</b>	<b>671,995</b>	<b>141,989</b>
<b>Grand Total:</b>			<b>1,077,785</b>

31 March 2017			
	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs
	Level 1	Level 2	Level 3
	£000	£000	£000
<b>Financial Assets</b>			
Investment assets (excluding cash)	0	1,015,102	0
Cash	23,920	0	
<b>Total financial assets</b>	<b>23,920</b>	<b>1,015,102</b>	<b>0</b>
<b>Grand Total:</b>			<b>1,039,022</b>

The classifications as at 31 March 2018 have been provided by the fund managers and for managed funds reflect the nature of the underlying investments.

Level 3 investments represent loans and credit advances to businesses and individuals that have no quoted values. Valuations are provided by the fund manager's and are based on the manager's determinations of credit quality and recoverability.

## 14. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

	31 March 2018			31 March 2017		
	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
	£000	£000	£000	£000	£000	£000
<b>Financial assets</b>						
Pooled investments	1,074,130			1,014,952		
Cash and cash equivalents	3,500	10,100		20	26,226	
Other investment balances		150			150	
Receivables		10,985			12,198	
<b>Total financial assets</b>	<b>1,077,630</b>	<b>21,235</b>	<b>0</b>	<b>1,014,971</b>	<b>38,574</b>	<b>0</b>
<b>Financial liabilities</b>						
Creditors			(2,297)			(1,389)
<b>Total financial liabilities</b>	<b>0</b>	<b>0</b>	<b>(2,297)</b>	<b>0</b>	<b>0</b>	<b>(1,389)</b>
<b>Total</b>	<b>1,077,630</b>	<b>21,235</b>	<b>(2,297)</b>	<b>1,014,971</b>	<b>38,574</b>	<b>(1,389)</b>
<b>Grand Total</b>			<b>1,096,568</b>			<b>1,052,157</b>

## 15. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Risk and risk management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to have a reasonable probability of achieving in the long-term returns at least in line with the 'prudent' return set by the Scheme Actuary when calculating the required employers' contributions. The Fund achieves this through selection of appropriate returning asset classes, asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows.

Responsibility for the fund's risk management strategy rests with the Pension Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) regulations 2016, which require an administering authority to invest any pension fund money that is not needed immediately to make payments from the Pension Fund in accordance with its Investment Strategy Statement.

The administering authority's overall risk management procedures focus on the unpredictability of the financial markets and implementing restrictions to minimise these risks.

The Pension Fund Committee has prepared an Investment Strategy Statement which sets out the Pension Fund's policy on matters such as the type of investments to be held, the balance between types of investments, investment restrictions and the way risk is managed. Investment performance by external investment managers is reported to the Pension Fund Committee quarterly. Performance of Pension Fund investments managed by external Investment managers is compared to benchmark returns.

### 15A. Market risk

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investment activities.

The Pension Fund is exposed to the risk of financial loss from a change in the value of its investments and the risk that the Pension Fund's assets fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term. In order to manage the market value risk, the Pension Fund has set restrictions on the type of investments it can hold, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) regulations 2016.

Details of the (Management and Investment of Funds) regulations 2016 can be found in the Investment Strategy Statement adopted by Pension Fund Committee on 14<sup>th</sup> March 2017.

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period.

Asset type	Potential market movements (+/-)
Pooled investments	18%

The 18% assumed volatility for pooled assets is based on the largest negative movement in the value of the fund's assets recorded in the last 10 years. This compares with an average annual change in value (positive or negative) during that period of 8.4%. It should be noted that large changes in value in one direction are often followed by a reversal. For example, the 18% loss in 2008/9 was followed by a 26% gain in 2009/10. The assumed volatility for cash balances is 1%.

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

Asset type	Value as at 31 March 2018 £000	Potential value on increase £000	Potential value on decrease £000
Pooled investments	1,074,130	1,267,473	880,787
<b>Total</b>	<b>1,074,130</b>	<b>1,267,473</b>	<b>880,787</b>

Asset type	Value as at	Potential value	Potential value
	31 March 2017	on increase	on decrease
	£000	£000	£000
Pooled investments	1,014,952	1,116,448	913,457
<b>Total</b>	<b>1,014,952</b>	<b>1,116,448</b>	<b>913,457</b>

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Assets exposed to interest rate risk	Value as at	Potential movement on	Value	Value
	31 March 2018	1% change in interest rates	on increase	on decrease
	£000	£000	£000	£000
Cash and cash equivalents	13,600	136	13,736	13,464
<b>Total</b>	<b>13,600</b>	<b>136</b>	<b>13,736</b>	<b>13,464</b>

Assets exposed to interest rate risk	Value as at	Potential movement on	Value	Value
	31 March 2017	1% change in interest rates	on increase	on decrease
	£000	£000	£000	£000
Cash and cash equivalents	26,246	262	26,508	26,984
<b>Total</b>	<b>26,246</b>	<b>262</b>	<b>26,508</b>	<b>25,984</b>

The Pension Fund holds a number of financial assets and liabilities in overseas financial markets and therefore could be exposed to the Exchange rate risk of loss from exchange rate movements of foreign currencies. This risk is deemed acceptable as the investments are widely diversified by currency and the scheme has no short-term expenditure liquidity requirements.

### 15B. Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments

generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk. However, the Pension Fund reviews its exposure to credit and counterparty risk through its external investment managers by review of the managers' annual internal control reports to ensure that managers exercise reasonable care and due diligence in their activities for the Pension Fund.

As at 31 March 2018 working capital was held in the Pension Fund bank account with the Royal Bank of Scotland and in a money market fund with Standard Life, in accordance with the credit rating criteria within the Council's Treasury Management Strategy. Pension administration working capital was held in a bank account operated by Capita Employee Benefits (CEB) on behalf of the Pension Fund.

Summary	Rating	Source	Balances	Balances
			as at	as at
			31 March	31 March
			2018	2017
			£000	£000
Standard Life MMF cash	AAAm	Moody's	3,500	23,900
Royal Bank of Scotland	BBB+	Moody's	10,095	2,326
Cash held by Fund Managers			5	20
<b>Total</b>			<b>13,600</b>	<b>26,246</b>

### 15C. Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due.

The main risk for the Pension Fund is not having the funds available to meet its commitments to make pension payments to its members. To manage this, the Pension Fund has a comprehensive cash flow management system that seeks to ensure that the cash is available when needed. The Pension Fund also manages its liquidity risk by having access to money market funds and call accounts where funds are repayable without penalty and on notice of not more than 24 hours. The Fund is also able to sell units in its Pooled Investment Vehicles if required.

The key refinancing risk is that the Council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its investment strategy.

## 16. ACTUARIAL VALUATION

Hymans Robertson LLP were appointed as fund actuary in 2016 and undertook a formal triennial actuarial valuation of the fund as at 31 March 2016 in accordance with the Local Government Pension Scheme Regulations 2013. The actuarial valuation calculates the contribution rate payable by the all employers, including the LBB Council, to meet the administering authority's funding objectives.

The funding level at 31 March 2016 was 73%. This corresponded to a shortfall on the funding target of £339 million. The aggregate primary contribution rate for 2017/18 is 17.9% of pensionable pay plus a secondary contribution of £13.374 million. The secondary contribution in 2018/19 increases to £14.683 million. This is the average required employer contribution to restore the funding position to 100% over the next 20 years.

The assumptions used for the triennial valuation were:

### Financial assumptions

	31 March 2016	31 March 2013
	%	%
Discount rate	4.2	6.0
RPI	3.2	3.5
CPI	2.1	2.7
Pension increases rate	2.1	2.7
Salary increases rate	2.4	4.5

### Demographic assumptions

	31 March 2016	31 March 2013
<b>Life expectancy from age 65</b>		
Retiring today:		
Males	21.9	22.1
Females	24.3	24.4
Retiring in 20 years:		
Males	23.9	24.2
Females	26.5	26.8
<b>Other demographic assumptions</b>		
Commutation	50%	50%
50:50 option	5%	10%

The triennial valuation was reported to the London Borough of Barnet Pension Fund Committee on 14 March 2017. The next actuarial valuation will be based on the value of the fund as at 31 March 2019.

**17. CURRENT ASSETS**

	31 March 2018	31 March 2017
	£000	£000
Contributions due – employees	798	791
Contributions due – employers	9,875	11,337
Sundry debtors	312	70
Cash balances	10,095	2,326
<b>Total current assets</b>	<b>21,080</b>	<b>14,524</b>

**Analysis of debtors**

	31 March 2018	31 March 2017
	£000	£000
Central government bodies	312	42
Other local authorities	5,010	8,911
Other entities and individuals	5,663	3,245
<b>Total debtors</b>	<b>10,985</b>	<b>12,198</b>

**18. CURRENT LIABILITIES**

	31 March 2018	31 March 2017
	£000	£000
Sundry creditors	(2,297)	(1,024)
Transfer values payable (leavers)	0	(365)
<b>Total current liabilities</b>	<b>(2,297)</b>	<b>(1,389)</b>

**Analysis of creditors**

	31 March 2018	31 March 2017
	£000	£000
Central government bodies	(491)	(483)
Other local authorities	(1,417)	(246)
Other entities and individuals	(389)	(660)
<b>Total creditors</b>	<b>(2,297)</b>	<b>(1,389)</b>

## 19. ADDITIONAL VOLUNTARY CONTRIBUTIONS

	Market value 31 March 2018	Market value 31 March 2017
	£000	£000
Aviva	478	616
Prudential	2,557	2,436
<b>Total AVC</b>	<b>3,035</b>	<b>3,052</b>

AVC contributions of £460,000 (2016/17: £454,000) were paid directly to Prudential and £7,000 (2016/17: £8,000) were paid to Aviva during the year.

## 20. RELATED PARTY TRANSACTIONS

The London Borough of Barnet Pension Fund is administered by the London Borough of Barnet. Consequently, there is a strong relationship between the Council and the Pension Fund. During the reporting period, the Council incurred costs of £1.181m (2016/17: 1.388m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £24.335m to the Fund in 2017/18 (2016/17: £18.927m). As at 31 March 2018 the Council owed the Pension Fund £5.662 million in pension contributions (£1.894 million as at 31 March 2017).

Part of the Pension Fund cash holdings are invested on the money markets by the treasury management operation of Barnet Council. During the year to 31 March 2018, the Fund had an average investment balance of £11.0m (year to 31 March 2017: £9.5m), earning interest of £0.048m (2016/17: £0.039m).

### Governance

One member of the Pension Fund Committee as at 31 March 2018 is in receipt of a pension from the Barnet Pension Fund. There are no active members of the Fund that are members of the Pension Fund Committee. Each member of the Pension Fund Committee is required to declare their interests at each meeting.

## 20A. KEY MANAGEMENT PERSONNEL

The key management personnel of the fund are the Chief Executive, the Assistant Chief Executive, the s.151 officer and the Deputy s.151 officer. The proportion of the total remuneration payable to key management personnel that is charged to the Pension Fund is set out below.

	31 March 2018	31 March 2017
	£000	£000
Short-term benefits	43	24
Post-employment benefits	11	5
<b>Total remuneration</b>	<b>54</b>	<b>29</b>

## 21. PENSION FUND ACCOUNTS REPORTING REQUIREMENT

### Introduction

CIPFA's Code of Practice on Local Authority Accounting 2017/18 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Barnet Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

### Present value of promised retirement benefits Year ended

Year ended	31 March 2018	31 March 2017
Active members (£m)	728	660
Deferred members (£m)	456	461
Pensioners (£m)	680	708
<b>(£m)</b>	<b>1,864</b>	<b>1,829</b>

The promised retirement benefits at 31 March 2018 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

### Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2018 and 31 March 2017. I estimate that the impact of the change in financial assumptions to 31 March 2018 is to increase the actuarial present value by £35m. I estimate that there is no impact from any change in demographic and longevity assumptions because they are identical to the previous year.

### Financial assumptions

Year ended (% p.a.)	31 March 2018	31 March 2017
Pension Increase Rate	2.4%	2.4%
Salary Increase Rate	2.7%	2.7%
Discount Rate	2.6%	2.5%

### Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.9 years	24.3 years
Future pensioners (assumed to be aged 45 at the latest formal valuation)	23.9 years	26.5 years

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

### Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 50% of the maximum tax-free cash for post-April 2008 service.

### Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity of assumptions for year ended 31 March 2018	Approximate % increase liabilities	Approximate monetary Value (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	150
0.5% p.a. increase in the Salary Increase Rate	1%	20
0.5% p.a. decrease in the Real Discount Rate	10%	180

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

### Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2018 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-



Peter Summers FFA  
13 April 2018  
For and on behalf of Hymans Robertson LLP

# **London Borough of Barnet Pension Fund**

## **Governance Policy and Compliance Statement**

**This document sets out the**

**Governance arrangements**

**for the**

**London Borough of Barnet Pension Fund**

**As at 31<sup>st</sup> December 2017**

## Governance Policy and Compliance Statement

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) Administering Authorities to publish Governance Policy and Compliance Statements setting out information relating to how the Administering Authority delegates its functions under those regulations and whether it complies with guidance given by the Secretary of State for Communities and Local Government.

### Administering Authority

London Borough of Barnet (LBB) is the **Administering Authority** of the London Borough of Barnet Pension Fund and administers the pension fund on behalf of participating employers and scheme members.

#### Roles and Delegations

LBB has delegated its pension functions to the **Pension Fund Committee**.

A **Local Pension Board** has been established by LBB to assist in ensuring compliance with regulations and legislation

LBB has delegated responsibility for the administration and financial accounting of the LB Barnet Pension fund to the **Chief Financial Officer**.

Each of these roles is discussed below.

### Pension Fund Committee

#### Responsibilities

The responsibilities of the Pension Fund Committee as set out in the Council's constitution are:

To consider approval and act in accordance with statutory Pension Fund documents:

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

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

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

To receive and consider approval of the Pension Fund Annual Report.

To appoint independent investment advisors.

To appoint Pension Fund investment managers.

To appoint Pension Fund actuaries.

To appoint a performance management company.

To appoint custodians.

To review and challenge the Pension Fund investment managers' performance against the Investment Strategy Statement in general and investment performance benchmarks and targets in particular.

To consider actuarial valuations and their impact on the Pension Fund.

To consider for approval applications from organisations wishing to become admitted bodies into the Pension Fund where legislation provides for discretion, including the requirements for bonds.

The Pension Fund Committee oversees the management of the LB Barnet Pension Fund. Their overriding duty is to ensure that the best possible outcome for the Pension Fund, its participating employers, scheme members and local taxpayers.

Their knowledge is supplemented by professional advice from Council officers, professional advisers and external experts. An ongoing programme of training is delivered to the Committee (and substitutes).

### Membership

The Pension Fund Committee consists of seven councillors appointed by Full Council. There are also six nominated substitutes who can attend meetings. The Committee members do not include representatives of other employers or scheme members.

### Meetings

The Pension Fund Committee meets at least four times a year. Meeting dates are published on the LBB's web site as are the meeting agenda and papers. The agenda and papers are published at least seven days in advance of the meeting. Minutes are also made available on the LBB web site after approval by the Chairman.

All members of the Committee have equal voting rights at meetings.

## Local Pension Board

### Responsibilities

The Board is responsible for assisting with:

Securing compliance with Local Government Pension Scheme (LGPS) Government regulations and any other legislation relating to the governance and administration of the LGPS

Securing compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator.

Such other matters that the LGPS regulations may specify.

Ensure the effective and efficient governance and administration of the LGPS for the LBB Pension Fund.

The Board's terms of reference detail their full remit.

The Council has charged the Local Pension Board with providing oversight of the matters outlined above. The Pension Board, however, is not a decision making body in relation to the management of the Pension Fund and the Pension Fund's management powers and responsibilities, which have been delegated by the Council to the Pensions Fund Committee or otherwise, remain solely the powers and responsibilities of them.

### Membership

The Board consists of seven members constituted as follows:

3 employer representatives comprising:

1 councillor who is not a member of the Pension Fund Committee.

2 employer representatives from an admitted or scheduled body

3 scheme member representatives (employee side) comprising:

1 active member

2 retired/deferred members

1 independent member/advisor having no current employment, contractual, financial or other material interest in the Council or any scheme employer fund and not being a member of the LGPS Fund.

The Council employer representative is appointed by LBB Full Council. Other members are appointed following a public recruitment, selection and interview process. Each member is appointed for a four-year term.

Substitute members may also be appointed who can attend meetings.

The Board members shall elect a Chairman and Vice-Chair. Should the elected Chairman be an Employer representative the Vice-Chairman must be a Scheme Member representative and vice versa.

All members of the Board are required to complete the Pension Regulator's public service toolkit. In addition, collective and bespoke training is provided based on a self-assessment of the training needs of each Board member.

### Meetings

The Local Pension Board meets at least 4 times a year. Meeting dates are published on the LBB's web site as are meeting agenda and papers. The agenda and papers are published at least seven days in advance of the meeting. Minutes are also made available on the LBB web site after approval by the Chairman.

All members of the Committee have equal voting rights at meetings. Substitute members have no voting rights unless they are replacing an absent member.

## **Chief Financial Officer**

The Chief Financial Officer (section 151 officer) is responsible for the preparation of the Pension Fund Annual Report & Accounts and ensuring the proper financial administration of the Fund. As appropriate, the Chief Finance Officer will delegate aspects of the role to other officers of the Council and to professional advisors within the scope of the LGPS Regulations.

Under the Council's Constitution, the Chief Finance Officer is responsible for, or responsible for delegating authority for:

Approving early payment of deferred benefits under regulation 30 of the Benefits Regulations or similar provisions in previous Regulations

Exercising discretion on compassionate grounds not to actuarially reduce deferred benefits paid early under regulation 30 of the Benefits Regulations or similar provisions in previous Regulations;

Exercising the power to accept late applications (made more than 30 days after return to work or, if does not return to work, 30 days after the date of leaving) from a member who wishes to pay optional contributions for a period of absence (Regulation 22 of the Administration Regulations);

Informing a member, who is entitled to a pension or retirement grant under two or more provisions, which provision shall apply (Regulation 34 of the 1997 Regulations);

Determining that late applications to convert scheme AVCs into a membership credit will be accepted provided such a late claim is not made within one year of attaining NRD or six

months after leaving service whichever is the later (Regulation 26 of the Administration Regulations).

Determining (for Barnet Council Employees only) whether to accept any request for the inwards transfer of pension rights made more than 12 months after the member joined the Scheme (Regulation 83 of the Administration Regulations).

Determining (for Barnet Council employees only) whether to accept any request for joining previous Scheme membership (either with this Employer and/or with another scheme employer) made more than 12 months after the member rejoined the Scheme (Regulation 16 of the Administration Regulations).

Exercising absolute discretion in determining the recipient(s) of any death grant payable from the Scheme (Regulations 23, 32 and 35 of the Benefits Regulations);

Deciding whether to treat education or training as continuous despite a break for the purpose of determining eligibility for a child's pension (Regulation 26 of the Benefits Regulations);

Communicating with other employers that are scheduled or admitted bodies as appropriate

## Policy Documents

There are number of other documents that are relevant to the governance and management of the scheme. These are listed below and are available from the administering authority.

- Funding Strategy Statement
- Investment Strategy Statement
- Communications Policy
- Discretions Policy
- Administration Strategy Statement
- Internal Disputes Resolution Procedure
- Annual report and accounts

## Compliance with guidance

The Council is required to report on compliance with guidance issues by the Secretary of State, Department of Communities and Local Government. The current position on compliance is set out in appendix A.

## Consultation

In preparing this statement, LBB has consulted with the Local Pension Board.

## Contact us

Any questions on the operation of the Pension Fund Committee or Local Pension Board should be directed to Paul Frost, telephone 02083892205, email [paul.frost@barnet.gov.uk](mailto:paul.frost@barnet.gov.uk)

## Statement of Compliance with Guidance

Principle	Requirement	Compliance	Comment
<b>Structure</b>	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	The decision making structure is clearly defined. Council delegates responsibility to the Pension Fund Committee which meets quarterly
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Not Compliant	Only Councillors are members of the Pension Committee. Representatives of other employers and scheme members are members of the Local Pension Board and can attend the Pension Fund Committee as observers.
	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	N/A	No Secondary Committee
	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	N/A	No Secondary Committee

<b>Representation</b>	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-	Not compliant	Only Councillors are members of the Pension Committee. Representatives of other employers and scheme members are members of the Local Pension Board and can attend Pension Fund Committees as observers.
	- employing authorities including non-scheme employers e.g. admitted bodies,		
	- scheme members (including deferred and pensioner scheme members),		
	- independent professional observers, and		
	- expert advisors (on an ad-hoc basis)		
	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.		
<b>Selection and role of lay members</b>	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	Members of the Pension Fund Committee have access to the terms of reference and are aware of their responsibilities.
<b>Voting</b>	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	All members of the Pension Fund Committee have equal voting rights.

<b>Training / Facility / Time / Expenses</b>	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Compliant	There is a clear policy on training. The Fund pays all approved training courses for all members. The training plan reflects the needs of the committee agenda.
	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	The rules on training, facilities, time and expenses apply equally to all Committee members.
<b>Meetings (Frequency / Quorum)</b>	That an administering authority's main committee or committees meet at least quarterly.	Compliant	There are at least four meetings a year.
	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	N/A	No Secondary Committee
	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	The Local Pension Board provides a forum for all groups of employers and scheme members.
<b>Access</b>	Subject to any rules in the Council's Constitution, all members of the main and secondary committees or panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee.	Compliant	Committee meeting papers are circulated at the same time to all members of the Pension Fund Committee.

<b>Scope</b>	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	The Pension Fund Committee mainly discuss investment and funding issues but are responsible for all governance matters relating to the pension fund.
<b>Publicity</b>	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Compliant	The Governance Policy Compliance Statement is made available to all interested parties and is attached to the Fund's Annual Report.

# London Borough of Barnet Pension Fund

Funding Strategy Statement

March 2017

	Funding Strategy Statement	PAGE
1	<a href="#">Introduction</a> .....	
2	<a href="#">Basic Funding issues</a> .....	
3	<a href="#">Calculating contributions for individual Employers</a> .....	
4	<a href="#">Funding strategy and links to investment strategy</a> .....	
5	<a href="#">Statutory reporting and comparison to other LGPS Funds</a> .....	

Appendices

	<a href="#">Appendix A – Regulatory framework</a> .....	
	<a href="#">Appendix B – Responsibilities of key parties</a> .....	
	<a href="#">Appendix C – Key risks and controls</a> .....	
	<a href="#">Appendix D – The calculation of Employer contributions</a> .....	
	<a href="#">Appendix E – Actuarial assumptions</a> .....	
	<a href="#">Appendix F – Glossary</a> .....	

# Contents

# 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:

HYMANS ROBERTSON LLP

- 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 George Bruce, Head of Treasury in the first instance at [george.bruce@barnet.gov.uk](mailto:george.bruce@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:

- 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;
- 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;
- 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;

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- 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)
<b>Funding Target Basis used</b>	Ongoing, assumes long-term Fund participation (see <a href="#">Appendix E</a> )			Ongoing, but may move to “gilts basis” - see <a href="#">Note (a)</a>		Ongoing, assumes fixed contract term in the Fund (see <a href="#">Appendix E</a> )
<b>Primary rate approach</b>	(see <a href="#">Appendix D – D.2</a> )					
<b>Stabilised contribution rate?</b>	Yes - see <a href="#">Note (b)</a>	No	No	No	No	No
<b>Maximum time horizon – <a href="#">Note (c)</a></b>	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
<b>Secondary rate – <a href="#">Note (d)</a></b>	monetary amount	Monetary amount	% of payroll	% of payroll or monetary amount	Monetary amount	Monetary amount
<b>Treatment of surplus</b>	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
<b>Probability of achieving target – <a href="#">Note (e)</a></b>	66%	66%	66%	66%	66%	66% - assuming there is a guarantor
<b>Phasing of contribution changes</b>	Covered by stabilisation arrangement	Maximum of 3 years	Maximum of 3 years	Maximum of 3 years	Maximum of 3 years	None
<b>Review of rates – <a href="#">Note (f)</a></b>	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
<b>New employer</b>	n/a	n/a	<a href="#">Note (g)</a>	<a href="#">Note (h)</a>		<a href="#">Notes (h) &amp; (i)</a>
<b>Cessation of</b>	Cessation is assumed not to be generally possible,			Can be ceased subject to terms of		Participation is assumed to expire at the

[XYZ] PENSION FUND

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<b>participation: cessation debt payable</b>	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 <a href="#">Note (j)</a> .	admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see <a href="#">Note (j)</a> .	end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.
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## 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:

<b>Type of employer</b>	<b>London Borough of Barnet Council and Academies</b>
<b>Max cont increase per year</b>	Max of +1% pa until 2020, to be confirmed thereafter
<b>Max cont decrease per year</b>	-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) Pooling

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) Letting employer retains pre-contract risks

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) Fixed contribution rate agreed

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”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers in w/c 20 March 2017 for comment;
- b) Comments were requested within 14 days;
- c) An Employers Forum was scheduled for the first quarter of 2017/18, which provided the opportunity for questions regarding the FSS to be raised and answered;
- d) Following the end of the consultation period the FSS was updated where required and then published on the administering authority’s website and reported to the Pension Fund Committee.

### **A3 How is the FSS published?**

The FSS is made available through the following routes:

- Published on the website, at [www.barnet.gov.uk](http://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](http://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:-**

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- 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;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
- prepare and maintain a FSS and a SIP/ISS, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- 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:-**

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

### **B3 The Fund Actuary should:-**

- 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;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
- 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);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

**B4 Other parties:-**

- investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
- 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;
- 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;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- 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;
- 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.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of</p>

Risk	Summary of Control Mechanisms
	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	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see <a href="#">3.9</a>).</p>

### C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>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.</p>
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	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>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:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see <a href="#">Note (b)</a> to <a href="#">3.3</a>).</p> <p>For other employers, review of contributions is permitted in general between valuations (see <a href="#">Note (f)</a> to <a href="#">3.3</a>) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

#### 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.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>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.</p>
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see <a href="#">Section 5</a> ).	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.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

#### 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.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are</p>

Risk	Summary of Control Mechanisms
	monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see <a href="#">Notes (h) and (j) to 3.3</a>).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see <a href="#">Note (f) to 3.3</a>).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see <a href="#">Note (a) to 3.3</a>).</p>

## 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:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see [D5](#) below)
- within the determined time horizon (see [3.3 Note \(c\)](#) for further details)
- 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:

- the actual timing of employer contributions within any financial year;
- 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.

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

- the actual timing of employer contributions within any financial year;
- 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

<b>Actuarial assumptions/basis</b>	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the <b>funding target</b> . The main assumptions will relate to the <b>discount rate</b> , salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund’s “trustees”.
<b>Admission Bodies</b>	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 <a href="#">2.3</a> ).
<b>Covenant</b>	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.
<b>Designating Employer</b>	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.
<b>Discount rate</b>	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 <b>funding target</b> 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 <b>Primary and Secondary rates</b> .
<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>funding target</b> values for each employer are individually tracked, together with its <b>Primary rate</b> at each <b>valuation</b> .
<b>Funding target</b>	The actuarially calculated present value of all pension entitlements of all <b>members</b> of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the <b>deficit</b> . It is calculated on a chosen set of <b>actuarial assumptions</b> .
<b>Gilt</b>	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.
<b>Guarantee / guarantor</b>	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 <b>covenant</b> to be as strong as its guarantor’s.
<b>Letting employer</b>	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.

<b>LGPS</b>	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.
<b>Maturity</b>	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.
<b>Members</b>	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).
<b>Primary contribution rate</b>	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.
<b>Profile</b>	The profile of an employer's membership or liability reflects various measurements of that employer's <b>members</b> , 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 <b>maturity</b> also.
<b>Rates and Adjustments Certificate</b>	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal <b>valuation</b> . 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.
<b>Scheduled Bodies</b>	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).
<b>Secondary contribution rate</b>	The difference between the employer's actual and <b>Primary contribution rates</b> . In broad terms, this relates to the shortfall of its asset share to its <b>funding target</b> . See <a href="#">Appendix D</a> for further details.
<b>Stabilisation</b>	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.

## Investment Strategy Statement (approved 24 October 2017)

### Introduction and background

This is the Investment Strategy Statement (“ISS”) of the London Borough of Barnet Pension Fund (“the Fund”), which is administered by Barnet Council, (“the Administering Authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016.

The ISS has been prepared by the Fund’s Pension Committee (“the Committee”) having taken advice from the Fund’s investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee on 24 October 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement dated March 2017.

### The suitability of particular investments and types of investments

The primary investment objective of the Fund is to ensure that the assets are invested to secure the benefits of the Fund’s members under the Local Government Pension Scheme. Against this background, the Fund’s approach to investing is to:

- Optimise the return consistent with a prudent level of risk;
- Ensure that there are sufficient resources to meet the liabilities; and
- Ensure the suitability of assets in relation to the needs of the Fund.

The Fund’s funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund’s assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee’s views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund’s liabilities.

It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Fund. The approach that the Fund has taken to setting an appropriate investment strategy is as follows:

Every three years following the actuarial valuation, the Fund undertakes an asset liability modelling exercise. This exercise focuses on key risk metrics of probability of success (how likely is the Fund to be fully funded over the agreed funding period) and downside risk (how poor could the funding position become in the worst economic outcomes).

Within each major market the Fund’s investment managers will maintain a diversified portfolio of securities through direct investment or via pooled vehicles. An Investment Management Agreement is in place for each investment manager, which sets out the relevant benchmark, performance target and asset allocation ranges, together with further restrictions.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation; the Fund does not have a formal rebalancing policy at present, however, a suitable policy is currently under consideration. In the meantime the Fund's position is monitored both by Officers and the Fund's advisers. A rebalancing back towards target weightings was undertaken in January 2017.

### **Investment of money in a wide variety of investments**

#### **Asset classes**

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e).

**Table 1 - Fund asset allocation**

<b>Asset class</b>	<b>Benchmark</b>	<b>Benchmark Proportion</b>	<b>Maximum Allocation</b>
<b>Equity</b>		<b>40%</b>	<b>44%</b>
<b>Global equity</b>	FTSE All World Index	<b>20%</b>	
	FTSE RAFI All World Equity GBP Hedged Index	<b>20%</b>	
<b>Diversified growth funds</b>	libor or inflation plus margin	<b>20%</b>	<b>28%</b>
<b>Liquid Multi-asset credit</b>	3 month libor plus margin 4-5%	<b>11%</b>	<b>14%</b>
<b>Corporate bonds</b>	Merrill Lynch Sterling Non-Gilts All Stocks Index	<b>10%</b>	<b>13%</b>
<b>Strategic bonds</b>	3 month Libor	<b>0</b>	<b>5%</b>
<b>Illiquid alternatives</b>	percentage annual return or 3 month libor plus a margin	<b>19%</b>	<b>23%</b>
		<b>100%</b>	

Consideration of the Fund's risks, including the approach to mitigating risks, is provided in the following section.

### **Managers**

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

### **The approach to risk, including the ways in which risks are to be measured and managed**

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

## Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk – The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial ‘contagion’, resulting in an increase in the cost of meeting the Fund’s liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. This analysis will be revisited as part of the 2016 valuation process. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund’s asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

## Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk - The risk that the currency of the Fund’s assets underperforms relative to sterling (i.e. the currency of the liabilities).
- Environmental, social and governance (“ESG”) - The risk that ESG related factors reduce the Fund’s ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows.

The Fund’s strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee is developing formal rebalancing arrangements to ensure the Fund’s “actual allocation” does not deviate substantially from its target. Rebalancing is considered currently but not on a formal structured basis. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund’s asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as liquid diversified growth funds, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund’s currency risk during their risk analysis. Currently the Committee hedges 50% of its exposure to currency risk within its quoted equity allocation.

Details of the Fund’s approach to managing ESG risks is set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and has attempted to reduce this risk by appointing more than one manager and having a significant proportion of the Scheme's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

#### Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending - The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

The Pension Fund Committee reviews its risk register annually with emerging risks reported to Pension Fund Committee as they arise.

A more comprehensive breakdown of the risks to which the Fund is exposed and the approach to managing these risks is set out in appendix A. A separate schedule of risks that the Fund monitors is set out in the Fund's Draft Funding Strategy Statement.

#### The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund's intention is to invest its assets through the London CIV as and when suitable pool investment solutions become available. An indicative timetable for investing through the pool was set out in the July 2016 submission to Government. The key criteria for assessment of pool solutions will be as follows:

- 1 That the pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
- 2 That there is a clear financial benefit to the Fund in investing in the solution offered by the pool, should a change of provider be necessary.

Any assets not currently invested in the London CIV will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds to meet the Fund's investment strategy requirements.

The Fund holds 36% of its assets in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool

In addition the Fund has already transitioned other assets into the London CIV with a value of 11% of the assets and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

The Fund holds c.8% of its assets in illiquid strategies (private market credit and direct lending) and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial

impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

### **Structure and governance of the London CIV**

The July 2016 submission to Government of the London CIV provided a statement addressing the structure and governance of the pool, the mechanisms by which the Fund can hold the pool to account and the services that will be shared or jointly procured.

### **How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments**

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

- **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- **Stewardship and governance** – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Panel undertakes training on a regular basis and this will include training and information sessions on matters of social, environmental and corporate governance.

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

## The exercise of rights (including voting rights) attaching to investments

### Voting rights

The Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitor the voting decisions made by all its investment managers on a regular basis.

### Stewardship

The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the 7 Principles of the Stewardship Code. The Fund will be reviewing this position in 2017-18 with a view to formally adopting the Code.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which it invests.

The Committee expects both the London CIV and any directly appointed fund managers to also comply with the Stewardship Code and this will be monitored on an annual basis.

The Fund is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners

Chartered Institute of Public Finance ("CIPFA") Pensions Panel Principles for Investment Decision Making set out the six principles of good investment practice issued by Government (Myners principles). The extent to which the Fund complies is set out in Appendix B.

Prepared by:-

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Mufaddal Jamali, Investment Analyst

For and on behalf of London Borough of Barnet Pension Fund Committee

# Appendix A – Approach to Risk

Investment invariably involves an element of risk. The Committee, in recognition of this, has adopted a number of strategies to mitigate the impact of unavoidable risks on the Fund. The Fund is subject to the following risks:

**Funding risk:** Asset values may not increase at the same rate as liabilities, resulting in an adverse impact on the funding position. The Committee monitors the funding position by considering the Fund's investment strategy and performance relative to the liabilities as part of the Fund's quarterly performance monitoring exercise.

**Financial mismatch risk:** The Committee recognises that assets and liabilities have different sensitivities to changes in financial factors. To mitigate this risk, the investment strategy is set such that it provides exposure to real assets (which provide some form of inflation-hedging) as well as income generating assets that, to some extent, match the Fund's liabilities.

**Liquidity/Cashflow risk:** Investments are held until such time as they are required to fund payment of pensions. In 2016/2017 it is anticipated that the contributions due will exceed the net payments from the fund to pensioners. However, the liquidity risk is being closely monitored. The Committee manages its cashflows and investment strategy to ensure that all future payments can be met and that sufficient assets are held in liquid investments to enable short term cash requirements to be met.

**Manager risk:** Fund managers could fail to achieve the investment targets specified in their mandates. This is considered by the Committee when fund managers are selected and their performance is reviewed regularly by the Committee as part of the manager monitoring process.

**Concentration risk:** This relates to the risk that the performance of a single asset class, investment or manager has a disproportionate influence on the Fund's performance. The Committee attempts to mitigate this risk by establishing a well-diversified strategic asset allocation, reviewing the investment strategy regularly, and following a regular fund manager review process.

**Demographic risk:** This relates to the uncertainty around longevity. The Committee recognises there are effectively no viable options to mitigate these risks and assesses the impact of these factors through the Funding Strategy Statement and formal triennial actuarial valuations.

**Counterparty risk:** This risk relates to the counterparty in a financial transaction failing to meet its obligations to the Fund. The Committee has set guidelines with its fund managers and its custodian to limit its exposure to counterparty risk by specifying minimum credit ratings and credit limits. It has similarly applied this strict criteria within its stock lending agreements to mitigate counterparty risk in these transactions.

**Currency risk:** The strategic asset allocation adopted by the Committee provides for an overseas allocation to enhance diversification via exposure to different economies. Such investments are, however, subject to fluctuations in exchange rates with an associated impact on performance. As such, the Committee has opted to hedge 50% of the Fund's currency risk (based on overseas exposure of the passive global equity allocation). This is considered to strike a suitable balance between dampening the volatility associated with currency fluctuations and the cost associated with currency hedging.

**Environmental, Social, and Governance Issues risk:** The Committee recognises that environmental, social and ethical issues have the potential to impact on the long term financial viability of an organisation. The Committee encourages managers to exercise votes in line with their stated ESG objectives.

# Appendix B – CIPFA Compliance

The statements below state the extent to which the Fund complies with the principles of investment practice originally issued by the Government in October 2001 in response to the recommendations of the Review of Institutional Investment undertaken by Lord Myners.

## **Principle 1: Effective decision-making**

**Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.**

**Trustees should have sufficient expertise to be able to evaluate and challenge the advice they received, and manage conflicts of interest.**

Compliant. The Council, as the administering authority, appoints the Pension Fund Committee, specifically for the purpose of managing the Fund's Investments. The Committee is supported by the actuary, independent advisors and officers.

## **Principle 2: Clear Objectives**

**Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant, and clearly communicate these to advisers and investment managers.**

Compliant. The Fund's investment objective and attitude to risk are reviewed and adjusted where necessary, on the basis of the outcomes of asset liability studies.

## **Principle 3: Risk and Liabilities**

**In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.**

Compliant. The investment strategy is reviewed annually and updated to take account of the latest actuarial information. Risk of sponsor or fund default is irrelevant as the London Borough of Barnet Pension Fund benefits are guaranteed by law.

## **Principle 4: Performance Assessment**

**Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.**

**Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.**

Part Compliant. The performance of the Fund's investments is monitored on a quarterly basis by officers and also the adviser, Hymans Robertson. The Committee is looking into how to assess the performance of decisions taken.

## **Principle 5: Responsible Ownership**

**Trustees should adopt, or ensure their investment managers adopt the Institutional Shareholder's Committee Statement of Principles on the responsibilities of shareholders and agents.**

**A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.**

**Trustees should report periodically to members on the discharge of such responsibilities.**

Compliant. Investment managers employed by the fund have clear corporate governance policies. The Pension Fund Committee has an approved voting policy.

**Principle 6: Transparency and Reporting**

**Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.**

**Trustees should provide regular communication to members in the form they consider most appropriate.**

Compliant. The Committee publishes documents including the Investment Strategy Statement, Funding Strategy Statement, Corporate Governance policy and committee meeting minutes on the London Borough of Barnet website. Annual reports and accounts are also published on the website.

## Communication Policy Statement

An effective communications strategy is vital for the pension administration service (provided on behalf of the Council by Capita Employee Benefits) in its aim to provide a high quality and consistent service to its customers.

This document sets out a policy framework within which the pension administration service will communicate with:-

- Fund members and their representatives
- Prospective Fund members and their representatives
- Fund employers

Set out in this statement are the mechanisms which are used to meet those communication needs.

It identifies the format, frequency and method of distributing information and publicity.

The pension administration service aims to use the most appropriate communication medium for the audiences receiving the information. This may involve using more than one method of communication.

- **Capita Employee Benefits:** for day-to-day contact between the hours of 9am and 5pm.
- **Correspondence:** the Fund utilises both surface mail and e-mail to receive and send correspondence.
- **Website:** A members' website is available and other information is available on the national websites at <http://www.lgps.org.uk/lge/core/page.do?pageld=97977>
- **Member Self-Service** as above
- **Annual Benefits:** An annual benefits statement is sent direct to the home addresses of deferred members where a current address is known and is available online for active members.
- **Pensions Roadshows:** The pension administration service also stages ad hoc roadshows for Fund members particularly where there are changes to the Fund organisational changes which have pension implications.
- **Existence Validation – Pensioners Living Abroad:** Capita Employee Benefits undertakes an annual exercise conducted through correspondence in order to establish the continued existence of pensioners living abroad.
- **All Employer Meetings:** Periodic meetings are arranged for employers. Specifically this has been used as a mechanism for communicating major strategic issues, significant changes in legislation and triennial valuation matters.

### Comments

We welcome and value your comments on the standards of service we provide. If you have any comments please contact us.

[barnetpensions@capita.co.uk](mailto:barnetpensions@capita.co.uk)

Address: London Borough of Barnet Pension Fund, PO Box 319, Darlington, DL98 1AJ  
Telephone: 01325 746010/11/12/13/14.

## Pension Administration Strategy

### ADMINISTRATION STRATEGY

#### PURPOSE OF STRATEGY

1. This Strategy sets out the administration protocols that have been agreed between Capita and the London Borough of Barnet (LBB) as administering authority to the London Borough of Barnet Pension Fund. The protocols aim to ensure the smooth running of the London Borough of Barnet Local Government Pension Scheme (LGPS) (the Scheme) and must be followed at all times.
2. This Strategy is the agreement between London Borough of Barnet and employers participating in the Scheme about the levels of performance and associated matters. It does not override any existing commercial contracts or contractual performance indicators which exist between LBB and Capita.
3. Performance levels are set out in this document for the Administering Authority, employers participating in the Scheme, Capita and where applicable third party contractors. These will be reviewed from time to time and only changed with agreement of the London Borough of Barnet.

#### REGULATORY BACKGROUND

4. The Strategy set out in this document is concerned with routine yet important responsibilities. These cannot, however, override any provision or requirement in the Local Government Pension Scheme Regulations (as set out in Appendix A) or in any other relevant legislation.

#### REVIEW OF THE STRATEGY

5. Capita own this strategy and a review will take place every twelve months. Any changes to the strategy will be reviewed and agreed by London Borough of Barnet and identified to Employers. Employers may submit suggestions to improve any aspect of this Strategy at any time.

#### ADMINISTRATION AND PERFORMANCE

6. London Borough of Barnet will administer the Pension Fund in accordance with the LGPS Regulations (and any overriding legislation including employer discretions) and issue a statutory notification to members. In doing so, the Pension Fund will support Employers by:
  - Providing information, advice and assistance on the Scheme and its administration
  - Distributing regular technical information
  - Distributing regular employer updates
  - Arranging a Pension Fund – Employer forum
  - Arranging six monthly Employer forum meetings
  - Providing employers online access to relevant management information and data on their employees
  - Issuing forms, newsletters, booklets and such other materials as are necessary in the administration of the Scheme

7. London Borough of Barnet as the Administering Authority will support members by:

- Producing benefit statements for members each year in line with the LGPS Regulations that meet the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 2013, provided the relevant information is received from their employer in line with this Strategy
- Setting up online access to allow member self service

8. Employers should note that London Borough of Barnet is not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme and the Discretionary Payments Regulations. That responsibility rests solely with the employer. Any over payment made by the London Borough of Barnet Pension Fund resulting from inaccurate information supplied by the employer shall be recovered by the Fund from the employer.

9. Employer should note that it is their responsibility to ensure that the correct procedures are followed and that any contractor which is admitted as a result of a TUPE transfer is aware of their responsibilities and costs in relation to staff. Further details can be found in the Employer Guide.

#### **ADDITIONAL NOTES**

##### Data Protection

Under the Data Protection Act 1998, LBB will protect from any improper disclosure any information held about a member. Information held will only be used by the Council for the operation of the Scheme. The employer must protect from improper disclosure any information from a member contained (where applicable) on any item sent from London Borough of Barnet. It will also only use information supplied or made available by the London Borough of Barnet Pension Fund for the operation of the Local Government Pension Scheme.

##### Internal Dispute Procedure

10. The employer must identify a 'nominated person' for any instances where an Internal Dispute Resolution Procedure (IDRP) application is submitted against the employer and meet the associated costs.

##### Fines

11. In the event that London Borough of Barnet is fined by the Pensions Regulator, this will be passed on to the relevant employer where that employer's action or inaction (e.g. the failure to notify a retirement within the time limits), caused the fine. Similar action will be served on all other service providers where failure to perform their duties results in a fine from the Regulator.

##### Charges to the employer

12. The administrative costs of running the Pension Fund are charged by LBB directly to the Fund. The Actuary takes these costs into account in assessing the employer contribution rate.

13. London Borough of Barnet will under certain circumstances consider giving written notice to employing authorities under regulation 70(2) on account of the authority's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established within this document. The written notice may include charges imposed by the Council for chasing employing authorities for outstanding information as detailed within the document.

14. If the London Borough of Barnet Pension Fund undertakes work specifically on behalf of the employer, the employer will be charged directly for the cost of that work e.g.

- Non receipt of new entrant documentation requiring the London Borough of Barnet Pension Fund to set up temporary data and/or complete documentation on behalf of the employer
- Non receipt of leaver details requiring the London Borough of Barnet Pension Fund to interrogate payroll or other systems on the employers' behalf

- Chasing outstanding information following one reminder
- IAS19 / FRS17 valuations
- Actuarial and / or legal advice (e.g. TUPE transfer)
- Technical advice, (where re-charging is deemed appropriate because the advice is not of general benefit to the Fund overall)

Indicative charges have been set out in the Matrix.

Please note, the Employer is responsible for any work carried out on its behalf by another section of their organisation or by a contractor appointed by that organisation (e.g. Pay or Human Resource sections).

Written by: Capita, on behalf of the Administering Authority and will be subject to review on an annual basis.

Created: July 2017

Task	Employer	Administering Authority or third party contractor (e.g. Fund Actuary)
<b>Actuarial Valuation Data (Provision of Data to Actuary and follow-ups)</b>	<p>The employer (or their payroll contractor / agency for whom the employer is responsible) shall provide Capita with year-end information as at 31 March each year in the notified format no later than <b>30 April</b> or the next working day.</p> <p>The information should distinguish those amounts representing deductions for voluntary contributions and the employees paying those voluntary contributions.</p>	<p>Capita will respond to queries about information provided within timescales set out and agreed with London Borough of Barnet.</p> <p>The Rates and Adjustment Certificate which forms part of the Valuation report must be published by the Council by <b>31 March of the year following a valuation.</b></p> <p>The cost of any employer specific questions or modelling which incurs a charge to the Fund by the Actuary will be chargeable to the employer.</p>

<p><b>Additional Voluntary Contributions</b></p>	<p>Pay additional voluntary contributions to the AVC provider within one week of deduction.</p> <p>Under the Pensions Act 1995 the Pensions Regulator may be notified if contributions are not received before the 19th of the month following that in which they were deducted.</p> <p>The employer will submit the schedule of AVCs in an agreed format directly to the AVC Provider ahead of the actual remittance.</p>	<p>Upon request of a new AVC application Capita will send a copy of the members application form is forwarded to the AVC provider within 10 working days, to enable them to set the member up in advance of the deductions being sent and to ensure that the deductions are allocated to the correct fund as elected by the member.</p>
<p><b>Ad-hoc requests and Data Queries</b></p>	<p>The employer (or their payroll contractor / agency for whom the employer is responsible) shall provide Capita with year-end information as at 31 March each year in the notified format no later than 30 April or the next working day.</p> <p>The information should distinguish those amounts representing deductions for voluntary contributions and the employees paying those voluntary contributions.</p>	<p>Capita will respond within 15 working days of the request.</p> <p>Enquiries which require input from the Actuary but require little or no research or calculations will take an additional 3 working days.</p> <p>Enquiries which require input from the Actuary and require more significant research or calculations will take an additional 5 working days.</p>
<p><b>Annual Benefit Statements</b></p>	<p>The employer (or their payroll contractor / agency for whom the employer is responsible) shall provide Capita with year-end information as at 31 March each year in the notified format no later than 30 April or the next working day.</p> <p>The information should distinguish those amounts representing deductions for voluntary contributions and the employees paying those voluntary contributions.</p>	<p>Capita will make a members ABS available on line or as hard copy by 31<sup>st</sup> August each year provided clean data has been provided by the employer by 30th April, unless agreed otherwise.</p> <p>For those employers who do not provide data by 31 May or have queries in relation to the data, statements will be issued on an alternative date but it cannot be guaranteed that they will be issued by the statutory deadline.</p>
<p><b>Bond Assessment (Provision of Data to Actuary or Pension Fund)</b></p>	<p>Pensions services will need the name of new employer, contact details, contract details and details of transferring employees in a specified format as set out below:</p> <ul style="list-style-type: none"> <li>• Name</li> <li>• National Insurance Number</li> <li>• Date of Birth</li> </ul>	<p>Capita will provide data to the Fund Actuary within 15 working days of all necessary information or within timescales set out and agreed with the London Borough of Barnet.</p> <p>Once the Actuary has agreed clean data, they will calculate the contribution rate within 10 working days.</p> <p>Capita will distribute the report within one week of receipt.</p> <p><b>Employers should note that there will be a charge from the Actuary</b></p>

	<ul style="list-style-type: none"> <li>Gender</li> <li>Full time pay at date of transfer</li> <li>Part time hours at date of transfer</li> <li>Date of transfer</li> <li>Period of the contract</li> <li>Whether the new employer will be 'open' or 'closed' to new entrants</li> <li>Whether there will be a guarantor in place for the new employer</li> <li>The funding basis on admission</li> </ul>	for the work.
	<p>Any costs incurred by the Pension Fund in respect of this work will be chargeable to the Employer commissioning the work.</p>	
<b>Bulk Transfer (Provision of Data to Actuary or Receiving Scheme)</b>	Form to be provided within <b>10 working days</b> of employee providing their notice of leaving but by no later than the end of the month in which they left.	<p>Capita will provide the data to the Actuary within <b>15 working days</b> of receipt.</p> <p>For a LGPS to LGPS transfer the calculations will be provided by the Actuary within <b>10 working days</b> from receiving clean data.</p> <p>For a bulk transfer to a broadly comparable scheme the time will vary. However <b>employers should note that there will be a charge from the Actuary for the work on a time cost basis.</b> The negotiations between the two Actuaries will take at least 5-6 months Any costs incurred by the Pension Fund in respect of this work will be chargeable to the Employer commissioning the work.</p>
<b>Cessation Valuation for admission of any Employer of the Scheme</b>	Form to be provided within <b>10 working days</b> of employee providing their notice of leaving but by no later than the end of the month in which they left.	<p>Capita will provide data to the Fund Actuary within <b>15 working days</b> of all necessary information or within timescales set out and agreed with the Council.</p> <p>Once the Actuary has agreed clean data, they will calculate the contribution rate within <b>20 working days.</b></p> <p>Capita will distribute the report within <b>one week</b> of receipt.</p> <p>Any costs incurred by the Pension Fund in respect of this work will be chargeable to the Employer commissioning the work.</p>
<b>Change in member details</b>	Form to be provided within <b>10 working days</b> of event but by no later than the end of the month in which the change occurs.	<p>Capita will update the Hartlink member record to reflect the change within <b>10 working days</b> of receipt of the change form.</p>
<b>Death Benefits</b>	Notification must be provided to Capita within <b>3 working days</b> of the death of the member.	<p>Capita will pay lump sums within <b>10 working days</b> of receipt of all necessary paperwork to be able to produce the calculation (this includes Grant of Probate or Letters of Administration).</p> <p>In exceptional circumstances (e.g. hardship cases) this will be brought forward by exception as agreed with LBOB.</p>
<b>Deferred Benefits upon Leaving</b>	Form to be provided within <b>10 working days</b> of employee providing their notice of leaving but by no later than the end of the month in which they left.	<p>Capita will issue a letter informing member of their deferred pension rights within <b>20 working days</b> of receipt of all necessary information required to produce calculation</p>

<p><b>Discretionary Powers</b></p> <p>It is a mandatory requirement that each employer is responsible for exercising the discretionary powers given to them by the Regulations and publishing their policy in respect of these key discretions.</p> <p>Copies of the relevant employer policies must be lodged with the London Borough of Barnet Pension Fund <b>before admission</b>.</p> <p><b>Employers must confirm that they have reviewed their discretions policy by 28th February each year and advise Capita of any changes required.</b></p>	<p>Capita will ensure that all employers hold a current Discretions Policy document upon admission to the fund.</p> <p>Capita will remind the employer newsletter the need to review and update employers on Regulatory changes which affect the employer's discretions.</p> <p>Capita will write to all employers (<b>by 31st January</b>) to request confirmation that the Employers Discretions Policy has been reviewed and is correct.</p> <p>Capita will store electronically all policies received and will refer to them upon any request that involves an employer's discretion. If a policy is not held then the request will not be actioned.</p> <p>Once any amendments are received Capita will apply the changes with <b>immediate effect following receipt</b>.</p> <p>From April 2015, non-receipt of a published Discretions Policy could result in non-compliance to the employer from The Pensions Regulator.</p>
<p><b>Employer Data for Calculation of Contribution Rate Schedule and/or Pension Information Memorandum (PIM)</b></p>	<p>Pension Services will need the name of new employer, contact details, contract details and details of transferring employees in a specified format as set out below:</p> <ul style="list-style-type: none"> <li>• Name</li> <li>• National Insurance Number</li> <li>• Date of Birth</li> <li>• Gender</li> <li>• Full time pay at date of transfer</li> <li>• Part time hours at date of transfer</li> <li>• Date of transfer</li> <li>• Period of the contract</li> <li>• Whether the new employer will be 'open' or 'closed' to new entrants</li> <li>• Whether there will be a guarantor in place for the new employer</li> <li>• The funding basis on admission</li> </ul> <p>Capita will provide data to the Fund Actuary within <b>15 working days</b> of all necessary information or within timescales set out and agreed with London Borough of Barnet.</p> <p>Once the Actuary has agreed clean data, they will calculate the contribution rate within <b>10 working days</b>.</p> <p>Capita will distribute the report within <b>one week</b> of receipt.</p> <p><b>Employers should note that there will be a charge from the Actuary for the work.</b></p> <p>Any costs incurred by the Pension Fund in respect of this work will be chargeable to the Employer commissioning the work.</p>
<p><b>Employer Decisions</b></p>	<p>Certain aspects of the Regulations require an employer decision. The employer is responsible for implementing such areas correctly, (e.g. deduction of contributions at the correct rate, notification to employee and within the correct timescales).</p> <p>The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 require the employer to ensure that all new employees eligible to join the LGPS receive a copy of the Employee Guide to the</p> <p>Capita will write to all employers within <b>10 working days</b> of the notification from Government to ensure that any changes to the contribution rates are communicated.</p> <p>If applicable, Capita will review the Fund's website on a regular basis to ensure information is accurate and fit for purpose.</p>

Scheme within **2 months** of becoming employed.

<p><b>IAS19 / FRS17 Reports (Provision of Data to Actuary and follow-ups)</b></p>	<p>The employer to confirm that they want a report by the date specified in the email request from Capita.</p> <p>At the same time the employer is to confirm if they do not wish for LBB to use the contribution amounts, as detailed in their monthly contribution return.</p>	<p>The Fund Actuary will provide reports within <b>20 working days</b> from the date of receipt of clean data.</p> <p>Capita will distribute all reports within <b>one week</b> of receipt.</p> <p><b>Any costs incurred by the Pension Fund in respect of this work will be chargeable to the Employer commissioning the work.</b> All queries will be chargeable to the employer. Additional costs will be incurred relating to merged employers, valuation of unfunded benefits, creation of opening positions, new employer / full valuation, splits for LGPS and teachers liabilities and additional work.</p>
<p><b>Independent Medical Practitioner</b></p>	<p>The employer is responsible for determining and employing their own appropriately qualified independent medical practitioner and providing details of those practitioners to the London Borough of Barnet Pension Fund. This should be done <b>before admission</b> and within <b>10 working days</b> of a new IQMP being commissioned.</p>	<p>Capita will verify the employers nominated independent medical practitioners is appropriately qualified to deal with ill health retirement cases, as set out in the Regulations <b>within 10 working days</b> of notification.</p> <p>Capita will seek confirmation at the point of an employer being admitted to the Scheme and confirm the information at the time of an ill health retirement.</p>
<p><b>Individual Transfer in</b></p>	<p>The employer to direct an employee to the appropriate documentation upon commencement of their employment.</p>	<p>Update pension record and issue member with statutory notification with relevant details <b>within 10 working days</b> of receipt of notification of payment from other pension scheme and confirmation that income has been allocated to the pension fund.</p>
<p><b>Individual Transfer Out</b></p>	<p>Form to be provided within <b>10 working days</b> of employee providing their notice of leaving but by no later than the end of the month in which they left.</p>	<p>Capita will make payment of the transfer value within <b>10 working days</b> of receipt of all necessary information</p>
<p><b>New Starter</b></p>	<p>Form to be provided within <b>10 working days</b> of employee joining but by no later than the end of the month in which they joined.</p>	<p>Capita will update the Hartlink member record created within <b>10 working days</b> of receipt of the new starter form. This allows member to access their Hartlink member record via the online portal, once they have registered.</p>
<p><b>Payment of Contributions</b></p>	<p>All member and employer contributions must be deducted at the correct rate and cleared in the Pension Fund's bank account by <b>19th of the month</b> (or the last working day before where the 19th is not a working day) following the month the contributions relate to.</p> <p>All employers must submit their bespoke advice form, preferably in an</p>	

electronic format, in advance of their payment and a quarterly submission.

**PLEASE NOTE:** The Fund's preference is that all payments are made by BACS. However any employer wishing to pay by cheque must ensure the cheque is received by the Pension Fund by the 14th of the month (or the last working day before where the 14th is not a working day). All cheques must be made payable to "London Borough of Barnet Pension Fund".

The Fund reserves the right to charge employers for late payment, in line with the Administering Authority Discretions. The Administering Authority will charge employers interest as defined in regulation 71 on late payments, except in exceptional circumstances.

<p><b>Retirement Benefits</b></p> <p>Due to the Regulations that govern the operation of the LGPS certain decisions on the nature of benefits to be taken have to be made prior to retirement. To enable this to happen, retirement notifications should be received by Capita at least <b>30 days prior to last day of employment</b>.</p> <p>When the forms are not provided prior to retirement, it should be forwarded no later than two days following notification.</p>	<p>Capita will pay lump sum within <b>10 working days</b> of receipt of all necessary paperwork to be able to make the payment.</p> <p>Retirement pension will be sent by Capita to pensioner payroll for the next available pensioner payroll run.</p> <p>If early retirement incurs a fund strain cost, any strain cost invoice will be raised by Capita within <b>10 working days</b> of the retirement being processed</p>
<p><b>Retirement Estimates</b></p> <p>Estimated pensionable pay details should be sent to Capita within <b>5 working days</b> to enable Capita to provide the retirement estimate within their agreed timescales. Employers to ascertain whether a previous years pay may be more beneficial and provide such information if necessary.</p> <p>Any delays in receiving accurate data may be escalated to the Administering Authority, and the Pensions Regulator.</p>	<p>Capita will request pensionable pay details from employers upon request from members or employers. Capita will provide the retirement estimate within <b>10 working days</b> of receipt of accurate pensionable pay details from employers.</p>
<p><b>Statutory Requests (to include but not exhaustive of DCLG, Home Office and GAD)</b></p> <p><b>Year End Information</b></p> <p>The employer (or their payroll contractor / agency for whom the employer is responsible) shall provide Capita with year-end information as at <b>31 March</b> each year in the notified format no later than <b>30 April</b> or the next working day.</p> <p>The information should distinguish those amounts representing deductions for voluntary contributions and the employees paying those voluntary</p>	<p>Capita will respond within timescales set out and agreed with London Borough of Barnet.</p> <p>Capita will request information and provide specification to employers not later than the <b>end of the first week in March</b>. A reminder will be sent out <b>10 working days</b> before the due date of <b>30<sup>th</sup> April</b>.</p> <p>This information will be used for member Annual Benefit Statements.</p>

The principal Regulations underpinning this document are:

- The Local Government Pension Scheme Regulations 2013 (and any amendments thereto)
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (and any amendments thereto)
- The Local Government Pension Scheme (Administration) Regulations 2007 (and any amendments thereto)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (and any amendments thereto)
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2007 (and any amendments thereto)
- The Local Government Pension Scheme (Transitional Provisions) Regulations 1997 (and any amendments thereto)
- The Local Government Pension Scheme Regulations 1997 (and any amendments thereto)
- The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 (and any amendments thereto)
- The Local Government Pension Scheme (Miscellaneous) Regulations 2012
- The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (and any amendments thereto)

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By virtue of paragraph(s) 3, 5 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

## AGENDA ITEM 10

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## AGENDA ITEM 11

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## AGENDA ITEM 12

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