MEETING
PENSION FUND COMMITTEE
DATE AND TIME
TUESDAY 22ND JANUARY, 2019
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	Danny Rich
Elliot Simberg	Alison Moore	

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 Thursday 17 January 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 Services contact: Paul.Frost@barnet.gov.uk

Media Relations Contact: Gareth Greene 020 8359 7039

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ORDER OF BUSINESS

Item No	Title of Report	Pages
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2.	Absence of Members	
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4.	Public Question and Comments (if any)	
5.	Report of the Monitoring Officer (if any)	
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14.	Any item(s) that the Chairman decides is urgent	

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Decisions of the Pension Fund Committee

16 October 2018

AGENDA ITEM 1

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

Anthony Finn
Anne Hutton
Peter Zinkin (substitute)

Alison Moore
Danny Rich

1. MINUTES (Agenda Item 1):

Before the Committee approved the minutes of the last meeting Councillor Alison Moore moved that the first resolution of item 7 be deleted. This was agreed.

RESOLVED – That the Minutes of the meeting held on 30 July 2018 be approved.

2. MINUTES - EXEMPT (Agenda Item 2):

Before the Committee approved the minutes of the last meeting Councillor Alison Moore moved that the first resolution of item 7 be deleted. This was agreed.

RESOLVED – That the Minutes of the meeting held on 30 July 2018 be approved.

3. ABSENCE OF MEMBERS (Agenda Item 3):

An apology of absence was received from Councillor Elliot Simberg. Councillor Perter Zinkin was in attendance as a substitute member.

4. DISCLOSABLE PECUNIARY INTERESTS AND NON PECUNIARY INTERESTS (Agenda Item 4):

Councillor Mark Shooter, Councillor Danny Rich, Councillor Anthony Finn 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.

Councillor Peter Zinkin declared a non-Disclosable Pecuniary as he stated that he has invested using platform and fund managers.

Councillor John Marshall declared a non-Disclosable Pecuniary as he stated that he an appointed representative as a Director on the RE Board.

5. PUBLIC QUESTION AND COMMENTS (IF ANY) (Agenda Item 5):

None

6. REPORT OF THE MONITORING OFFICER (IF ANY) (Agenda Item 6):

None

7. EXTERNAL AUDITOR'S 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. The Committee noted that Appendix A was amended following its publication and therefore the document had been circulated in advance of the meeting and made available for public inspection.

The Committee noted that the accounts had been signed by the Director of Finance and the Chairman of the Pension Fund Committee.

The Committee question the quality and accuracy of the scheme data. The Director of Finance stated that the Council was monitoring the position and intended to continue to monitor the collection of data closely.

Mr Leigh Lloyd-Thomas from BDO stated that the data quality had improved, however he said that there should be an evaluation of the reporting standards.

The Committee were informed that there was a backlog of uncollected debtor invoices and therefore there should be better credit control measures put in place.

He concluded that the data was in the best position it's been in during the last 2 years. He suggested that there be a clear payments processes and oversight form a financial control perspective. He stated that the London Borough of Barnet was below average in regards to administration processes which he declared was weak. The Council's Director of Finance, Mr Bartle stated that it was important to the Council that the administration be fit for purpose and therefore, he assured the Committee that the Council were considering measures to improve the position. Members further noted that there were overdue contributions due to the Pension Fund and the Pension Fund Committee agreed that this was unacceptable.

Councillor Alison Moore noted her concern and requested to the Chairman that the Committee had a work programme and adopt the same consistency as other Committees within the Council. This was agreed by all Members.

Having considered the report the Committee:

Resolved

- That the Pension Fund Committee noted the matters raised by the external auditor in respect of the audit of the 2017/18 Accounts and Annual Report
- That the Pension Fund Committee requested that at the next meeting the audit recommendations and associated actions be reported
- That the Pensions Fund Committee agree that a work programme be reported at the next meeting.

8. PLANNING FOR THE 2019 TRIENNIAL VALUATION (Agenda Item 8):

The report was presented by the Scheme Actuary, Gemma Sefton of Hymans Robertson. She provided the Committee with the funding position of the Pension Scheme and noted the rate of contributions paid by employers is assessed every three years by the Scheme Actuary. The Committee noted that the next review date was 31 March 2019.

The Committee had the opportunity to discuss the role of the Actuary, the interaction between the Actuary, the Committee and Employers and the valuation timetable.

The Actuary suggested that completion of the triennial valuation will be helped if the scheme membership data as at 31 March 2018 was uploaded on to the Actuary's data portal for review. The Direct of Finance stared that the data should be up to date and available as soon as possible for review by the Actuary. The Chairman requested that this be formally minuted. The Committee requested that an update be reported to the Pension Fund Committee at the meeting due to take place on 22 January 2019.

Resolved

- That the Pension Fund Committee noted the triennial valuation timetable and the contents of the report
- That the Pensions Committee requested that membership data of the fund be provided as soon as possible via the Actuary's portal.
- That the Director of Finance be requested to formally request the required valuation data from the administrator
- That the Pension Fund Committee requested that an update on the quality of the data be provided by the Actuary at the next meeting of the committee on 22 January 2019.

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

The Head of Treasury and Pension introduced the report.

He reminded Members that Barnet and Southgate college merged in 2011. He stated that the active members of Southgate College transferred from the Enfield scheme to Barnet Pension Fund. He noted that Enfield are seeking to retain deferred and pensioner members within their fund and requesting a transfer value of circa £4.2 million from Barnet Pension Fund.

Having considered the report:

Resolved

- That the Pension Fund Committee noted the ongoing discussions with Enfield. The committee requested that the Director of Finance submit a report to a future meeting in order to outline a full range of options for the committee to consider
- The committee requested that it be clearly document within the report the legal position and clarity on any liability
- That the committee requested that Barnet Southgate Collage be communicated with in advance of the next meeting.
- The Committee noted that this transfer had not been reported prior to 2018

10. UPDATE ON ADMITTED BODIES ORGANISATIONS (Agenda Item 10):

The Head of Treasury and Pensions introduced the report.

He provided an update to the Committee on the Admitted Bodies participating in the Local Government Pension Scheme administered by the London Borough of Barnet.

The Head of Treasury and Pensions informed Members that two Capita entities participating in the pension fund had failed to make payments of approximately £1.2m to the Pension Fund. The Director of Finance sated clearly that the overdue contributuons must be paid and therefore he informed the Pension Fund Committee that he would be writing to the Pensions Regulator tomorrow (17 October 2018). He also confirmed that the Council were to make a payment to the Pension Fund this week which was noted. The Committee requested that they be informed once the council payment has been made.

The Director of Finance assured the pension Fund Committee that the Council took the issue of late payments very seriously and he stated that the failure to collect overdue contributions was due to a weakness in controls operated by the Council. He stated that the Council were implanting stronger financial controls and said that he would be monitoring the position.

Resolved

- That the Pension Fund Committee noted the update concerning admissions, cessations, bonds and the monitoring of contributions as detailed below and in Appendix 1.
- The Committee requested that they be informed once the council payment has been made.

11. LONDON CIV POOLING UPDATE AND ALLOCATION (Agenda Item 11):

The Head of Treasury and Pension introduced the report.

He told Members that LB Barnet Pension Fund is required by Government over an extended timescale to transfer its investments to oversight by the London CIV. He requested that Members considered the report, including the LCIV options for each of Barnet's existing investments.

The Chairman noted that he was a Committee Member on the London Council's Shareholder Committee. He said it was a benefit to the Fund to be part of the LCIV as the management fees paid by the fund are reduced. He also stated that the CIV operated clear due diligence processes when selecting nd monitoring fund managers..

Members noted that there was an opportunity for Hymans Roberson to evaluate the Fund managers and therefore it was requested that an external validation take place in order for the Committee to have confidence in the selection process.

The Committee, having read the report and taking the guidance form the independent advisor:

Resolved
That the pension fund committee agreed that a report be submitted by Hymans Robertson that outlines either a preference for the Funds existing debt fund managers or those offered by the LCIV.

12. TRAINING NEEDS SELF-ASSESSMENT QUESTIONNAIRE (Agenda Item 12):

The Head of Treasury and Pension introduced the report. He requested that Members completed the form located in appendix A.

Resolved
That the Pension Fund committee noted the report

13. MOTION TO EXCLUDE PRESS AND PUBLIC (Agenda Item 13):

The Charmain moved a motion to exclude the press and public for the remaining part of the meeting. This was agreed by the Committee.

14. INVESTMENT ALLOCATION TO PROPERTY – (EXEMPT REPORT) (Agenda Item 14):

The Head of Treasury and Pension introduced the report.

1. The Pension Fund Committee agreed to:
    a. Invest £25 million into the CBRE Global Alpha Fund
    b. to partially sell holdings in the Newton Real Return fund to finance the investment.
2. The Pension Fund Committee agreed to Delegate authority to the S151 officer to take any actions required to implement the Committee's decisions.

15. FUND INVESTMENT - PERFORMANCE 30 JUNE 2018 (EXEMPT REPORT) (Agenda Item 15):

The Head of Treasury and Pension introduced the report.

Nick Jellema, Investment Consultant form Hymans Roberts gave an overview of the performance of the fund for the quarter.

Having considered the report the Committee:

- Noted the performance of the Pension Fund for the quarter to 30 June 2018.
- Agreed that the Alcentra investment is switched into a fee structure with a flat fee of 0.6%.

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

The Chairman introduced the report. He stated that the report was urgent and therefore he requested that the Committee consider the report.

The Committee:
Resolved

- Revoked the Council's delegation of the joint discharge of the relevant functions to the Pensions CIV Joint Committee ("PCSJC").
- Endorsed the new governance arrangements referred to in the paper and in the letter signed by the Chief Executive of London CIV and the Chief Executive of London Councils dated 13 June 2018 (appendix 1) "New Arrangements").

- Confirmed and accepted that the new governance arrangements supersede the PCSJC, support the dissolution of the PCSJC, and the making of appointments to the new Shareholder Committee and additional non-executive appointments and a Treasurer observer.
- Note that this report be reported at the next council meeting.
- Noted that Councillor Shooter was a Member on the Shareholder Committee
- Noted that the report be submitted to Full Council

The meeting finished at 21:40

	AGENDA ITEM 7 **Pension Fund Committee** **22 January 2019**
Title	**Managing the cost of the LGPS**
Report of	Director of Finance
Wards	All
Status	Public
Urgent	No
Key	No
Enclosures	Appendix - 1 Local Government Pension Scheme Advisory Board 21st December 2018
Officer Contact Details	George Bruce, Head of Treasury & Pensions 0208 359 7126 george.bruce@barnet.gov.uk

Summary

The Scheme Advisory Board has developed proposals to improve the LGPS benefits that will result in higher contribution rates for employers. There is expected to be a brief consultation on the proposals during Q1, 2019. Communications with employers and staff is being considered.

Recommendations

The Pension Fund Committee note the proposals from the Scheme Advisory Board and delegate approval to the Director of Finance to respond to the expected MHCLG consultation on the proposed changes to the LGPS.

1. WHY THIS REPORT IS NEEDED

1.1 When the 2014 benefits changes were made to the LGPS it was legislated that the costs of providing benefits to LGPS would be reviewed after each triennial valuation and if the costs to employers was expected to move out-with a specified band, that benefits or staff contributions would change. The purpose was to limit changes in costs to employers. Thus, if costs were expected to increase, either future benefits would be scaled back or staff contributions would increase to reduce the impact on employers' contributions.

1.2 Rather confusingly in the LGPS, two such costs reviews are undertaken on different basis; by the Scheme Advisory Board (SAB) and HMRC.

1.3 The first such review by the SAB has indicated that the future cost of providing LGPS benefits is 19% of salary compared with a target cost of 19.5%. Thus, projected future cost is 0.5% less than target. This cost is designed to cover both employer and staff contributions; initially 13% employer and 6.5% staff.

1.4 The attached note from Hymans Robertson outlines the result of the SAB analysis and the next steps.

1.5 The SAB having concluded that the future costs of providing benefits are less than the target of 19.5% have reviewed ways to alter the benefits package to return the total cost back to the target. The SAB has proposed the following actions to increase the cost for LGPS employers:

a) More generous ill health retirement provision

b) A minimum lump sum death in service benefit of £75,000 per member (currently 3 times salary at all salary levels).

c) Enhanced early retirement factors for all members who are active on 1st April 2019 in respect of their final salary linked membership only.

d) Reduced contribution rates for those on the lower salary bands.

1.6 Hymans have estimated that the average employer contribution rate will increase by 0.9% due to the above changes, while for those employers whose staff earn less than £12,000 the increase could be as much as 2.75%. No changes in contribution rates will take place until April 2020 and the above changes will be factored in the 2019 triennial valuation.

1.7 For employers participating in the scheme the SAB analysis will be difficult to comprehend as actual costs are massively in excess of the notional costs

calculated by the SAB. For LB Barnet Pension Fund the average primary (ongoing) employer rate at the 2016 triennial valuation rate was 17.9%, that for the Council was 16.9%. These rates ignore deficit contributions and the Council are actually paying 26.9% of salary increasing to 27.9% from April 2019. Academies are paying 23.8%. The approach to cost caps ignore the fact that actual employer rates are increasing year on year and appear both bizarre and detached from reality.

1.8 The next step is for the Government to consider the SAB's proposals. If the Government is satisfied, they will consult on the proposals during quarter 1, 2019 with the intention that they be implemented from 1st April 2019.

1.9 The short timetable to implement will result in challenges for the administrator (Capita) and payroll providers for each employer. Consideration is being given to how to communicate these changes to Staff, employers and payroll providers.

1.10 The Government's own cost cap analysis will be undertaken in 2019. If the changes proposed by SAB are accepted these will be factored into the Government's own review and reduce the likelihood that this will result in further benefit / contribution changes.

2. REASONS FOR RECOMMENDATIONS

2.1 The recommendation is for noting. The Council should respond to the consultation so that the Government recognise the flaws in the current approach to cost control.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None – if available, alternatives will be considered when the SAB's proposals are finalised.

4. POST DECISION IMPLEMENTATION

4.1 Implementation is a matter for employers and the administrator with the potential to impact on staff retirement decisions.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 The proposed changes, if they proceed following consultation, are likely to increase employers' contribution rates from April 2020 impacting on the Council's budget.

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

5.2.1 As noted above higher employer's contributions will have budget implications for the Council. A 1% increase in employer pension contribution will cost the council £0.4m. Any increase will require consideration in the councils MTFS and business planning process.

5.3 **Social Value**

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

5.4 **Legal and Constitutional References**

5.4.1 The Council's Constitution (Article 7) – includes Committee responsibilities for actuarial and funding matters, which are relevant to this issue

5.4.2 The Council is required to operate the pension scheme in accordance with the Local Government Pension Scheme Regulations 2013, which will be altered if the Government accept the SAB's recommendations.

The Local Government Pension Scheme Regulations 2013 were amended by the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 to include regulation 116, which provides that the Scheme Advisory Board must obtain a Scheme cost assessment from the Scheme Actuary detailing the overall cost of the scheme and proportion of the cost being met by Scheme employers and members triennially.

5.4.3 Where the overall cost of the scheme if above or below the target overall cost, the SAB may make recommendations to the Secretary of State as to the steps to take to bring the overall costs of the Scheme back to the target overall costs.

5.5 **Risk Management**

5.5.1 There are no risk management issues.

5.6 **Equalities and Diversity**

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

5.6.2 As set out in the report from the SAB, the Board has received legal advice in

relation to potential claims for discrimination, especially age discrimination, when formulating its recommendations.

5.7 **Consultation and Engagement**

5.7.1 Not required.

5.8 **Insight**

5.8.1 Not used - external report.

6. BACKGROUND PAPERS

6.1 None.

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Local Government Pension Scheme Advisory Board

SAB Cost Management

Context

1. Cost management for the LGPS in England and Wales is taking place in the context of a public service pension scheme wide cost cap review under HM Treasury directions. In the other schemes indicative outcomes have seen breaches of the cost cap floor requiring benefit improvements in excess of 3% of payroll.
2. The closest comparable public service scheme undergoing the cost cap process this year is LGPS in Northern Ireland which has recently commenced a consulation on a benefit improvment package costing 3.2% of payroll.
3. LGPS in England and Wales has a separate cost management process which is completed prior to finalisation of the HMT cost cap calculations.

Board cost management outcome

4. At the Board meeting of the 10th October it was noted that, subject to agreement by government to return the scheme design to that agreed in 2013 by the employers and scheme members in relation to the annual revaluation of CARE benefits, the outcome of the Board's cost management process was a total scheme future service cost of 19%. As the target for the process is 19.5% the Board agreed to consider recommendations to return the total cost back to the target.
5. It was further agreed that a Board sub group consisting of the Chair, Vice Chair and an employer representative would consider a package of benefit improvements sufficient to return the total cost back to 19.5% and such further changes to employee contributions within that total cost necessary to obtain the support of both employer and employee representatives of the Board.
6. The Board agreed that options for changes to benefits should be limited to Third Tier Ill Health, Lump sum death grants, Early Retirement and Commutation. These being elements which were both of interest to scheme members and affordable within the 0.5% target cost increase. Any changes to employee contribution rates were to be targeted principally at the lowest bands but also seeking to address existing anomalies with regard to pension tax relief at both the personal and higher rate allowance points.

Consideration of options

7. In order to provide the Board sub group with the information necessary to come to a view a small technical group consisting of representatives of both scheme member and employers as well as the secretariat was formed. This group received actuarial input (in the form of technical advice from MHCLG's GAD adviser and independent actuarial advice from the Board's actuarial adviser) and legal views from Eversheds (in particular with regard to potential discrimination issues) and considered a number of options around the elements agreed by Board.

8. The secretariat also held discussions with LGPS actuarial firms in order to get a very broad feel of the potential actual impact at fund and employer level of the various options.

9. The following proposals were put to the Board for agreement.

Ill health

10. That the removal of the third tier of ill health (costed on the assumption that tier 2 would be awarded in these cases) should be recommended.

Death in service

11. That due to the high cost and low perceived benefit a small improvement to the existing lump sum death in service benefit (3 x pay) for all members was not appropriate for recommendation. However a targeted improvement via the introduction of a minimum payment of £75,000 (per member) was.

Early Retirement

12. A number of options on enhanced early retirement factors were considered including limiting the enhancements to various groups of members or sections of the scheme. Following legal opinion on the potential for challenge to a number of options on the grounds of age discrimination two options were put forward to the Board; application of equal enhancement to all members in all sections of the scheme and targeted enhancements to final salary section benefits.

Commutation

13. Given the potential cost of a membership wide increase together with the potential for confusion and administrative overhead of limiting commutation improvements to a particular group of members or section of the scheme this option was not considered to be a priority and therefore no recommendations were made to the Board in this area.

Employee contributions

14. Based on costing information provided, six options for changes to employee contribution rates were considered. The objective for the options was to find one that most closely met the dual ambition of removing tax relief anomalies (where net contributions are lower after an increase in pay because of the effect of pension tax relief) and providing a real reduction for the lowest paid members.

15. The option that most closely met these ambitions was agreed to be;
    - A new 2.75% band at pay of £0 to £12,850. This new band reflects the lack of any pension tax relief for levels of pay below the new personal allowance.
    - An expansion in size but reduction in rate of the current band 2 (5.8%). This would now go from £12,501 to £22,500 and be at a rate of 4.4% benefitting lower paid members.
    - An expansion of the top of current 6.8% band from £45,200 to £53,500 to reflect the increases in the higher rate tax allowance since the bands were introduced in 2014.
16. It was also proposed to the Board that moving the bands out of regulation and into guidance would in future years enable a more effective tracking of changes to pension tax relief as well as providing a more effective and speedier means to meet the target yield.
17. The Board sub group considered these options and obtained agreement by the employee and employer representatives on the Board.

Recommendations of the Board

18. The following package of benefit improvements and employee contribution reductions were submitted to the Secretary of State on 16th November. Since then discussions of taken place with the minister and his team and further legal and equality impact advice has been obtained.

a) Removal of Tier 3 of Ill Health (amendments required to Regulation 35)

b) A minimum lump sum death in service benefit of £75,000 per member (amendments required to Regulation 40)

c) Enhanced early retirement factors for all members who are active on 1st April 2019 in respect of their final salary linked membership only. Following further legal advice obtained by Government an amendment to this recommendation was agreed and submitted on 12th December. The recommendation now is that, within the same cost envelope, enhanced early retirement factors should be applied to <u>all service</u> of all members active on 1st April 2019 (new actuarial guidance required).

d) Removal of contribution bands from regulations replaced by reference to guidance (amendments required to Regulation 9)

e) Introduction of the bands shown below for 2019-20 (new guidance required)

Band	Pensionable Pay from £	Pensionable Pay to £	Contribution rate
1	0	12,850	2.75%
2	12,851	22,500	4.4%
3	22,501	36,500	6.5%
4	36,501	53,500	6.8%
5	53,501	64,600	8.5%
6	64,601	91,500	9.9%
7	91,501	107,700	10.5%
8	107,701	161,500	11.4%
9	161,501		12.5%

Estimated financial impact of the package

19. The revision back to revaluation of pension accrued to the start of the scheme year is estimated to be a **reduction** in the future scheme cost of 0.4% of payroll.

20. This package of recommended benefit improvements is estimated to **increase** the total future service cost of the scheme by 0.5% of payroll.

21. Within that total it is estimated that the reduction in the employee contribution yield as a result of the new bands will be 0.8% of payroll in 2019-20 with a potentially equivalent **increase** in employer contributions.

22. All other things being equal the above package would see net increases in average employer future service rates of 0.9% of payroll.

23. However all other things are not equal and few employers pay the average rate therefore the actual impact for each scheme employer will depend on the outcome of the 2019 valuation process and in particular;

    - The view taken by the fund actuaries of the costs of each element of the package
    - The membership profile of each employer; with those with higher paid full time staff possibly seeing a smaller upward pressure on contributions and conversely those with a very large proportion of staff earning less than £12,000 potentially seeing a much higher upward pressure possibly in excess of 2%.
    - The extent to which the costs are mitigated by other factors such as the falling away of future longevity increases

- The extent to which the costs are amplified by other factors such as reductions to future service discount rates
- The upward or downward pressure of changes to employer deficits on the total employer rate

Next steps on Board cost management

24. It was hoped that agreement could have been reached with MHCLG on these recommendations and a consultation launched before Christmas. For a number of reasons this has not proved possible, however, it is anticipated that such a consultation will be published in late January/early February for regulations to take effect from 1st April.

25. The Board has made representations to MHCLG and HM Treasury that meeting the implementation date of 1st April 2019, will be significantly challenging for administering authorities and have proposed putting back the implementation date if possible. However, indications are that due to the requirements placed on all public service pension schemes the 1st April implementation date will not be changed

26. The Board has strongly suggested to MHCLG that -

    (a) the consultation be as short as is possible and

    (b) a letter of comfort is issued as soon as is legally possible to allow administering authorities and software providers to anticipate the changes to regulations and employers to implement new contribution rates.

27. In the meantime, the Board advise that authorities begin preparations for the above changes including taking a view on advising their employers of the proposed contributions rates. Without preempting regulatory changes it may be prudent to put in place the necessary preparations to avoid changing bands on 1st April under current regulations then retrospectively making further changes to bands and rates resulting in contribution overpayments. Doing so could enable employers to take immediate and full advantage of any letter of comfort issued prior to regulations in this area.

28. You may also wish to make employers and members aware of the proposed changes to ill health and early retirement with effect from 1st April so that decisions can be made in light of the proposals.

29. The Board secretariat will contact software suppliers and major payroll providers to assess the changes required to systems to implement these proposals. In particular to determine the most effective way to introduce enhanced early retirement factors with the absolute minimum impact on administrative processes.

30. The secretariat will review the NI database to ensure it can provide the necessary membership information to ensure that minimum death in service lump sums are appropriately limited where multiple active membership records exist across funds.

31. The secretariat will also work with fund actuaries to ensure the proposed changes are able to be appropriately accounted for in the coming valuation.

32. At its last meeting the LGPS Technical Group, consisting of representatives from the regional Pension Officer Groups (POGs), agreed to form a working group early in the New Year to further assess the administrative implications of the proposals and provide information and advice to administering authorities.

Next steps on MHT cost cap

33. The HMT cost cap process will be completed once the outcome of the above proposals and subsequent consultation is known.

34. If the proposals are not accepted by government either prior to or following a consultation then the HMT process will complete without having to take account of any changes to scheme design when determining if the cost floor has been breached.

35. If the proposals are accepted and submitted for legislation, the HMT process will take the changes into account when determining if the cost floor has been breached.

36. In either case if the cost floor is breached changes to benefits will be required under the terms of the Public Service Pension Schemes Act 2013.

Jeff Houston
Secretary to the Local Government Pension Scheme Advisory Board (England and Wales)

If you have any questions please contact the Board Secretariat on any of the following email addresses. Please note you will get an out of office from the team over the Christmas period but your email will be picked up and will be responded to as quickly as possible.

Jeff.houston@local.gov.uk
Robert.holloway@local.gov.uk
Liam.robson@local.gov.uk

21st December 2018

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

AGENDA ITEM 9

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AGENDA ITEM 11

Pension Fund Committee

22 January 2019

Title	**Investment Strategy Update**
Report of	Director of Finance
Wards	n/a
Status	Public with exempt appendix A
Urgent	No
Key	No
Enclosures	Appendix A – Hymans Robertson Strategy Report [EXEMPT] Exempt report - Not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 as amended.
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Summary

At the Pension Fund Committee meetings on 26 Feb 2018 and 26 June 2018 Hymans Robertson proposed a strategy allocation that replaced the allocation to diversified growth funds with allocations to property and private equity and switching a portion of the passive equities into actively managed emerging market equities. Progress has been made with the property allocation, and this update seeks to introduce active emerging market equities and private equity to the Committee. The meeting will be preceded with training on these two asset classes.

Recommendations

That the Pension Fund Committee agree to request Hymans Robertson to identify suitable private equity and emerging market funds for presentation to the March 2019 Committee meeting.

1. WHY THIS REPORT IS NEEDED

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

1.2 The Committee at its meeting on 26 June 2018 discussed an investment strategy that replaced the current 20% allocation to diversified growth funds with property (10%), private equity (5%) and a further 5% to be distributed across existing asset classes. Progress have been made on property (discussed below) and the attached report from Hymans Robertson re-introduces the merits of an allocation to private equity and emerging market equities.

Proposed Strategic Allocations

1.3 The proposed changes to the strategic asset allocation are set out on page 8 of the Hymans Report. These are different in one respect from the proposals discussed at February and June 2018 in that an additional 5% allocation to equity is now proposed (moving from 40% to 45%) where as previously 5% of the DGF allocation was reallocated across the existing debt mandates. Hymans will discuss this change at the meeting.

Property

1.4 The Committee agreed to a 10% allocation to property at the July and October 2018 meeting, split 5% to Core UK, 2.5% to long lease and 2.5% to overseas. A Commitment of $32 million (circa £25 million) has been made to the CBRE Global Alpha fund selected at the July meeting. No funds have been drawn as yet and an update will be given at the Committee meeting as to the timing of the draw downs.

1.5 The remaining 7.5% allocation to Core UK and Long Lease property has been held over awaiting information on the offerings from the London CIV. The launch of these products by the London CIV is taking longer than was initially expected and the funds destined for these investments remain invested within the Newton Real Return Fund.

1.6 An opportunity arose during December to invest in the Fidelity UK property fund, the Committee's preferred manager for this allocation. An existing investor was seeking to exit and the trade (Circa £30 million) would have been executed at half way between the buying and selling prices saving 2.75% entry costs. However, in discussion with the Chairman, it was concluded that UK property valuations do not currently reflect market developments and that a pricing correction of 5 to 10% is a possibility in 2019. As the seller was unwilling to reduce their pricing the offer was not accepted. Thus, the delay in

investing in property is not considered to be a concern and may offer more favourable entry pricing in 2019.

1.7 A verbal update on property opportunities and timing will be made at the meeting.

Emerging Market Equities and Private Equity

1.8 Appendix A (exempt report) provides an overview of the benefits of including allocations to private equity and emerging market equities. Training will be provided immediately before the meeting from managers in these asset classes. The training will focus on the benefits of the asset class and the different ways of investing.

1.9 The training on emerging market equities will be undertaken by Janus Henderson who manage the London CIV's only specialist emerging market equity fund. In light of the pooling obligations, the London CIV's fund is one that should be considered if an allocation to this asset class is considered desirable. The London CIV is not expected to have a private equity offering for some years and the Committee will have to proceed without assistance from LCIV.

1.10 If the Committee is agreeable to an allocation, a selection of managers with different strategies will be brought to the March meeting for consideration.

2. REASONS FOR RECOMMENDATIONS

2.1 The LGPS (Management and Investment of Funds) Regulations 2016 (Regulation 7(7)) requires the Committee to periodically (at least every three years) review the investment strategy. The proposal recognises that the strategy has been enhanced in 2015, 2016 and 2017. Modelling presented to the Committee at the June 2018 meeting indicated that the current strategy, while expected to achieve the funding objective, can be enhanced.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 The various alternatives are discussed in the paper and within Appendix a (exempt report). The recommendations are based on the modelling results.

4. POST DECISION IMPLEMENTATION

4.1 It is not intended that any implementation actions will be taken at this meeting. This will be carried over to a subsequent meeting when manager appointment decisions can be made.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 Good management of the Pension Fund will minimise the cost of providing benefits thus enabling funds to be directed to Council priorities.

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

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

5.3 **Social Value**

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

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

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

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

5.4 **Legal and Constitutional References**

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

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

5.5 **Risk Management**

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

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

5.6 **Equalities and Diversity**

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

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

5.7 **Consultation and Engagement**

5.7.1 Not applicable.

5.8 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 See Pension Fund Committee agenda item 14, 26th June 2018 and item 10. 26th February 2018. Links for these meetings are below.

https://barnetintranet.moderngov.co.uk/ieListDocuments.aspx?CId=191&MId=9228&Ver=4

https://barnetintranet.moderngov.co.uk/ieListDocuments.aspx?CId=191&MId=9684&Ver=4

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