	Pension Fund Committee **14 March 2017**
Title	**Pension Fund Triennial Actuarial Valuation 2016**
Report of	Chief Executive Officer and Section 151 Officer
Wards	All
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1 – London Borough of Barnet pension Fund 2016 Actuarial Valuation DRAFT Valuation Report (Hymans Robertson, March 2017)
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Summary

This purpose of this report is to inform the Pension Fund Committee of the outcome of the 2016 triennial actuarial valuation of the Pension Fund and of the individual results for the Council as an employer.

Recommendations

That the Committee

1. **Note the results of the 2016 triennial actuarial valuation of the Pension Fund at whole fund level.**

2. **Note the minimum employer contribution rates for the London Borough of Barnet for the next three years.**

1. WHY THIS REPORT IS NEEDED

1.1 The purpose of this report is to present the Pension Fund Committee with the initial results of the 2016 actuarial valuation.

1.2 It is a regulatory requirement of the Local Government Pension Scheme that the administering authority instructs the actuary to undertake a triennial valuation. The main purpose of the valuation is to review the financial position of the Fund and to determine the minimum rate at which the employers of the Fund should contribute in the future to ensure that the existing assets and future contributions will be sufficient to meet future benefit payments from the Fund.

1.3 The most recent valuation of the fund was undertaken by the Fund actuary, Hymans Robertson as at 31 March 2016 and shows that the past service funding level of the Fund as a whole has decreased from 79% to 73% between the date of the previous valuation, 31 March 2013, and 31 March 2016. The main reason for the change in funding level over the period is the change in financial assumptions resulting from both the change in market conditions and a change in actuarial approach.

1.4 Previously triennial valuations calculated a Common (Whole Fund) Contribution Rate. The regulations no longer require the reporting of the Common Contribution Rate. This has been replaced by Whole Fund Primary and Secondary Contribution Rates calculated as the payroll weighted average of the Primary and Secondary Contribution Rates for employers. These rates will be reported in the final valuation report.

1.5 As part of the 2016 valuation, Hymans Robertson have undertaken an asset-liability modelling exercise, known as 'comPASS' modelling, to review funding strategies for the Fund's long term secure employers. This approach is based on an analysis of **P**rudence, **A**ffordability, **S**tability and **S**tewardship and allows the actuary to determine, based on the current employer contribution rate varying by a set percentage each year, how likely it is that the Fund will be fully funded at any given point in time. This approach has the advantage of stabilising contribution rates, thus allowing budgeting certainty and an understanding of the risks faced by the Fund paying contributions at a pre-determined rate.

1.6 This approach is, however, only appropriate for long term, secure employers being, in the case of the LB Barnet Pension Fund, only the LB Barnet pool which includes the Council itself, plus schools and a small number of other employers included in the Barnet pool.

1.7 The actuary's modelling has tested a number of stabilised contribution strategies for the LB Barnet pool, based on the probability of these contribution levels enabling the Fund to reach a fully funded position. Based on this modelling, for the 2016 valuation, the London Borough of Barnet pool's proposed contribution rate is based on a deficit recovery period of 20 years compared with 18 years at the 2013 valuation. The proposed contributions rates for the LB Barnet employer pool are as follows:

	2016/17 (current rate)	2017/18	2018/19	2019/20
Minimum employer contribution rate	13.0% + monetary amount of £9.548m	Freeze rate	+1.0%	+1.0%

1.8 Every employer in the Fund is different. For instance, they have different funding levels, sources of funds for paying contributions, covenants, maturity profiles and timeframes for their participation in the Fund. As a result, when setting contribution rates, employers are categorised based on their individual characteristics in order to build a credible funding plan that fits their own needs while recognising the risk they pose the Fund and other participating employers. For the vast majority of employers, the target is to be fully funded on the Fund's ongoing funding assumptions. Once a target has been chosen, the time employers are given to reach that target needs to be determined. For the majority of employers, this is expected to be set at 15 years.

The actual contribution rate for 2016 will differ for each scheduled and admitted body, the main reasons for variations in individual results being due to differences in:

- The maturity profile of members;
- Experience of individual employers since 2013, including mortality rates, salary increases, early retirements and workforce changes.

The proposed contribution rates for employers within the Fund are currently being finalised and will be agreed with individual employers and reported to the next meeting of the Committee.

2. REASONS FOR RECOMMENDATIONS

2.1 To ensure that the Pension Fund Committee are made aware of the outcome of the triennial actuarial valuation for the Fund as a whole and for LB Barnet as an employer.

3 ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not applicable. The actuarial valuation of the Pension Fund is a statutory requirement.

4 POST DECISION IMPLEMENTATION

4.1 Employers will be informed of any change in employer contribution rates which will be applied from 2017/18 and consulted on the draft Funding

Strategy Statement which will be reported to the next Pension Fund Committee.

4.2 The actuary will complete the actuarial valuation report by 31 March 2017.

4.3 Agreed employer contribution rates for all employers in the Fund will be reported to the next meeting of the Committee.

5 IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund will provide support towards the Council's corporate priorities in providing better services, with less money.

5.1.2 The objectives of the Pension Fund Funding Strategy Statement include ensuring the long term solvency of the fund and identification of the share of the Fund attributable to individual employers.

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

5.2.1 The recommended minimum employer contribution rate for LB Barnet has been incorporated into the Council's 2017/18 budget.

5.2.2. There are no procurement, performance and value for money, staffing, IT, Property or Sustainability implications.

5.3 Social Value

5.3.1 Ensuring the long term financial health of the Pension Fund will benefit everyone who contributes to it.

5.4 Legal and Constitutional References

5.4.1. Regulation 62 of the Local Government Pension Scheme Regulations 2013 requires that an administering authority obtain an actuarial valuation of assets and liabilities as at 31 March 2016 (and for every 3 years afterwards), a report by the actuary in respect of the valuation and a rates and adjustment certificate. All these documents must be obtained, in relation to the 31 March 2016 valuation, by 31 March 2017..

5.4.2 As a local authority, the Council's employees have the right to be members of the Local Government Pension Scheme and, therefore, the Council is statutorily required to make employer contributions.

The Council's Constitution – Part 15, Annex A, Responsibility for Functions details the responsibilities and terms of reference of the Pension Fund Committee. The terms of reference include consideration of actuarial valuations and their impact on the Pension Fund.

5.4 Risk Management

5.5.1 The accuracy of the valuation relies on the accuracy of the data provided to the actuary. Any errors in the provision of the data could have a significant impact on the required contribution rates, particularly for the smaller scheduled and admitted bodies. Hymans Robertson's valuation model identifies errors, both critical and non-critical in the data provided for the valuation. All critical errors identified have been investigated and resolved to a satisfactory extent to allow the actuary to certify the valuation results and contribution rates.

5.5.2 The value of the Pension Fund assets at any point in time is determined by the market and a large movement in the markets could have a significant impact on the surplus or deficit of the fund.

5.6 Equalities and Diversity

5.6.1 Ensuring the long term financial health of the Pension Fund will benefit everyone who contributes to it. Access to and participation in the Pension Fund is open to all those eligible, as provided by the criteria set out within the relevant Regulations.

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

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

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

5.7 Consultation and Engagement

5.7.1 Not applicable.

6 BACKGROUND PAPERS

6.1 None