

	<h2>Pension Fund Committee</h2> <h3>18 July 2017</h3>
<p style="text-align: right;">Title</p>	<p>Barnet Council Pension Fund – Funding Strategy Statement</p>
<p style="text-align: right;">Report of</p>	<p>Director of Resources</p>
<p style="text-align: right;">Wards</p>	<p>n/a</p>
<p style="text-align: right;">Status</p>	<p>Public</p>
<p style="text-align: right;">Urgent</p>	<p>No</p>
<p style="text-align: right;">Key</p>	<p>No</p>
<p style="text-align: right;">Enclosures</p>	<p>Appendix A – Funding Strategy Statement (FSS)</p>
<p style="text-align: right;">Officer Contact Details</p>	<p>Gillian Clelland, Assistant Director of Finance, CSG gillian.clelland@barnet.gov.uk - 0208 359 5310</p>

Summary

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

Recommendations

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

1. WHY THIS REPORT IS NEEDED

- 1.1 Acting in its capacity as Administering Authority to the Barnet Pension Fund, it is the responsibility of London Borough of Barnet Council to prepare, publish and maintain a Funding Strategy Statement.
- 1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) prepared guidance, in a document entitled "Guidance on Preparing and Maintaining a Funding Strategy Statement in the LGPS" and this guidance was updated in 2016.
- 1.3 The FSS was prepared by the Council in collaboration with the Fund's Actuary, Hymans Robertson and it is attached at Appendix A.
- 1.4 The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:
 - affordability of employer contributions,
 - transparency of processes,
 - stability of employers' contributions, and
 - prudence in the funding basis
- 1.5 The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:
 - the LGPS Regulations;
 - the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
 - actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
 - the Fund's Statement of Investment Principles / Investment Strategy Statement
- 1.6 The FSS should be reviewed formally at least every three years and in advance of the completion of the triennial valuation of the Pension Fund. The valuation exercise establishes contribution rates for all employers contributing to the fund for the following three years within the framework provided by the strategy. The next valuation will be 31 March 2019. However, a revised statement can be issued in the interim if any significant or material change arises. This Funding Strategy has been updated to reflect changes made for the 2016 valuation.

2. REASONS FOR RECOMMENDATIONS

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

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None

4. POST DECISION IMPLEMENTATION

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

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

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

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

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

5.3 Social Value

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

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

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

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

5.4 Legal and Constitutional References

5.4.1 Legal - Regulation 58 of the Local Government Pension Scheme Regulations

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

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

- Statement of Investment Principles
- **Funding Strategy Statement**
- Governance Policy Statement
- Pension Administration Strategy
- Communication Policy Statement

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

5.5 Risk Management

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

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

- financial
- demographic
- regulatory
- governance

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

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

shortfall in payments and/or orphaned liabilities.

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

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

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

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

5.6 Equalities and Diversity

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

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

5.7 Consultation and Engagement

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

5.7.2 An Employer Forum will be established to ensure that the administering authority can engage with the employers and other stakeholders to determine

the proposed methodology for future reviews of the FSS.

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

5.8 **Insight**

5.8.1 Not applicable

6. **BACKGROUND PAPERS**

6.1 None