

	<h2 style="margin: 0;">Pension Fund Committee</h2> <h3 style="margin: 0;">26 June 2018</h3>
Title	Transfer Value in respect of Barnet and Southgate College
Report of	Director of Finance
Wards	All
Status	Public
Urgent	No
Key	No
Enclosures	N/A
Officer Contact Details	George Bruce, Head of Treasury & Pensions 0208 359 7126 george.bruce@barnet.gov.uk

<h3>Summary</h3>
<p>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. Enfield are seeking to retain deferred and pensioner members within their fund and requesting a transfer value of circa £4.2 million from the Barnet Pension Fund. Negotiations are continuing with Enfield and their actuary.</p>

<h3>Recommendations</h3>
<ol style="list-style-type: none"> 1. That the Pension Fund Committee note 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.

1. WHY THIS REPORT IS NEEDED

- 1.1 This note brings to the attention of the Committee discussions that have been ongoing with LB Enfield since 31 October 2011 concerning the pension implications of the merger of Barnet and Southgate Colleges at that date. As part of the merger the active employees of Southgate College transferred to the Barnet Pension Fund. Barnet assumed responsibility for past service accrued when the transferred employees were members of the Enfield scheme.
- 1.2 Since 2011 there has been an ongoing debate concerning the treatment of former Southgate College staff who were either Enfield pensioners or deferred scheme members as at October 2011 and the appropriate transfer value to be paid to compensate Barnet for taking on the liability for past service of active staff who transferred to the Barnet Pension Fund in 2011. As will be explained below the Enfield position is that the Barnet Pension Fund should pay Enfield an estimated £4.2 million.
- 1.3 Quite why the process of finalising the transfer has taken such an extraordinary length of time is impossible to justify. Discussion on the appropriate methodology reached a conclusion in October 2015. Barnet and College officers agreed to the preferred Enfield methodology and this was notified to Enfield. A formal agreement letter was drafted but not signed.
- 1.4 Thereafter the Barnet actuary at the time, Barnett Waddingham, were asked to verify the calculation of the transfer value. We are informed that Enfield took two years (to September 2017) to provide their actuary, Aon Hewitt, with the relevant membership data that was subsequently passed onto Barnett Waddingham to review on behalf of the Barnet Pension Fund. Barnett Waddingham made the current pensions team at Barnet aware of the issue in November 2017. Subsequently, responsibility for providing advice to Barnet Pension Fund has been switched to our current actuary, Hymans Robertson, and discussions have been held with Enfield and their actuary, Aon Hewitt. Unfortunately, we have not been able to persuade Barnett Waddingham to release the membership data they received from Aon Hewitt to allow Hymans to undertake calculations of the various options.
- 1.5 The suggestion that the Barnet Pension Fund pay Enfield for taking on past service liabilities of transferred staff is counter intuitive. Normally the transfer value would be paid by Enfield to Barnet as we will be taking on pension liabilities that had been accumulated in the Enfield Fund. The rationale for the 'reverse' transfer value is due to the approach taken to calculating the value of assets that Enfield requires to pay former Southgate staff who were pensioners or deferred members of the Enfield Fund as at 2011, as discussed below.
- 1.6 Pension funds normally calculate the value of assets required to pay liabilities assuming an investment return that is based on a reasonable expectation of future investment returns. When an employer ceases, the fund can take a more cautious approach and assume a lower (gilt based) return. This leads to a

higher calculation of the required value of assets to meet the liabilities. Often the increase in the value placed on the liabilities is around 50%. When Enfield's actuary undertook this calculation, they calculated that the Southgate fund had insufficient assets to cover the pensioner and deferred liabilities by £2.287 million as at October 2011. This liability has been inflated by missed investment returns since 2011 and is now estimated at £4.2 million. Thus, the proposal is that Barnet Pension Fund pay £4.2 million to Enfield to balance their retained liabilities and we receive no assets for taking on the active liabilities.

- 1.7 All pension fund assets and liabilities are allocated to individual employers. The liabilities of active transferred staff were included within the Barnet and Southgate sub-fund at the 2016 actuarial valuation and were factored into the contribution rates payable. If we were to accept the Enfield proposal the payment to Enfield would be taken out of the College's assets within the Barnet Pension Fund and the College will be required to pay additional contributions. If the College pays the additional contributions there will be no implications for other employers in the fund.
- 1.8 As mentioned above, Enfield are seeking to retain the liabilities for former Southgate staff funded on a gilts basis. Two alternative approaches have been suggested to Enfield:
 - A higher investment return is used to calculate the Enfield retained assets and liabilities in line with the basis used to set contributions on an ongoing basis, or
 - The liabilities and assets relating to pensioners and deferred members are transferred to the Barnet fund.
- 1.9 Both of the above proposals will alleviate the need for a payment to the Enfield fund and leave the College better funded within Barnet Pension Fund.
- 1.10 Enfield have expressed a preference for the methodology 'agreed' in 2015 arguing that it would take time and cost to revisit alternatives.
- 1.11 The College has been informed of the position and expressed surprise. A former officer of the College agreed to the 2015 proposal but this knowledge appears to have been lost with staff changes.
- 1.12 The current position is that we are seeking data on the pensioner and deferred Southgate members so that Hymans can finalise the alternative proposals. The next steps will involve sending proposals to LB Enfield and arranging a meeting involving both funds, their actuaries and Barnet and Southgate College. Should Enfield not accept our proposals they can force a cessation valuation on the College, resulting in the liability discussed above being directly payable by the College.
- 1.13 Given the slow progress to date, putting a timescale on resolution is difficult. The Committee and the College will be asked to approve any final proposals.

2. REASONS FOR RECOMMENDATIONS

- 2.1 The recommendation is for the Committee to note the current position. The current Enfield proposal is not seen as the best outcome for either the Barnet Pension Fund or Barnet and Southgate College.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 None – alternatives will be offered when a decision is required.

4. POST DECISION IMPLEMENTATION

- 4.1 Further discussions are ongoing involving officers from Enfield, Barnet, their actuaries and Barnet and Southgate College.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1 The funding of the Barnet and Southgate sub-fund within the pension fund has no implications for Barnet Council.

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

- 5.2.1 The payment of a transfer value has significant financial implications for Barnet and Southgate College. Should Enfield's approach be adopted, the college's schedule of contributions will require revision. There are no financial implications for the Council (other than as backstop guarantor of fund solvency) or other employers.

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 includes Committee responsibilities for actuarial and funding matters, which are relevant to this issue

- 5.4.2 The Local Government Pension Scheme Regulations 2013, regulation 98, requires transfers involving two or more members to be treated as bulk transfers and agreed by both administering authorities and the employer.

5.5 Risk Management

- 5.5.1 The final transfer value agreed with Enfield will impact on the Barnet Pension

Fund assets and actuarial funding level. Lower funding levels increase the risk that contributions will have to increase

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.

5.7 Consultation and Engagement

5.7.1 Not required.

5.8 Insight

5.8.1 Not used - external report.

6. BACKGROUND PAPERS

6.1 None