



## Pension Fund Committee

13 February 2020

**Title**

**2019 Triennial Valuation Update and Funding Strategy Statement**

**Report of**

Director of Finance

**Wards**

N/A

**Status**

Public, except for exempt Appendix A.

**Urgent**

No

**Key**

No

**Enclosures**

Appendix A: Fund as whole Valuation Results Schedule (Exempt). **[To follow]**  
Appendix B: Draft Funding Strategy Statement  
Appendix C: Significant Amendments to Funding Strategy Statement.

**Exempt enclosure - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of any particular person (including the authority holding that information)).**

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## Summary

The funding position of the pension scheme and rate of contributions paid by employers is assessed every three years by the Scheme Actuary. The triennial valuation as at 31 March 2019 is nearing completion. The Actuary will be attending the meeting to discuss the results. Delays have occurred in the provision of usable data to the Actuary, which has pushed back the timetable. It is intended that the whole Fund valuation position (not

individual employer results) will be circulated in advance of the meeting.

The draft Funding Strategy Statement was circulated to employers for consultation on 17<sup>th</sup> January. Comments have also been requested from the Local Pension Board. Any comments received will be reported to the Committee.

## **Officers Recommendations**

- 1. That the Pension Fund Committee note the initial results of the triennial valuation and consider whether the assumptions used by the Actuary are appropriate.**
- 2. That the Pension Fund Committee consider any comments on the draft Funding Strategy Statement and if deemed appropriate, approve the revised statement.**

## 1. WHY THIS REPORT IS NEEDED

- 1.1 The Committee are responsible for appointing a scheme actuary and commissioning a triennial actuarial valuation in addition to formulating long term funding and investment strategies that ensure that the scheme has sufficient assets to pay benefits as they fall due.
- 1.2 Every three years the Actuary assesses the funding position of the Pension Fund and determines the contributions payable by each employer. The triennial valuation as at 31 March 2019 is progressing and a new contribution schedule will be effective from 1<sup>st</sup> April 2020.
- 1.3 The Actuary has presented to the July meeting (data quality) and the March meeting (overall timetable). If actions had been in accordance with the timetable, draft scheme results would have been presented at the September meeting and individual employer results to the November meeting. Unfortunately, as discussed at the last meeting the Actuary has raised multiple concerns with the quality of the data supplied centred on unrecorded leavers and joiners, missing salaries and pensions, inconsistencies between employer codes used in the membership data and those used to record cashflows and understanding the changes between the membership as at 2016 and 2019. Significant work from officers has enabled the Actuary to amend the data received from the administrator such that the Actuary as of 25 January has calculated but not released fund as a whole results. To complete the valuation including individual employer results the Actuary has requested from officers:
  - a) Confirmation of a reasonable assumption for the value of spouses' pensions as this is not calculated until payment is due;
  - b) Details of unfunded pensions paid from the fund (these are recharged to employers);
  - c) Confirmation of the employer codes with active members;
  - d) Confirmation that the number of unprocessed joiners and leavers is not significant;
  - e) Confirmation that the 2019 salaries are correct as most are inconsistent with those used in 2016; and
  - f) Confirmation that all member transfers between employers are identified in the membership data extract provided to the Actuary.
- 1.4 The details and assurances required have mostly been provided, with b) outstanding but expected w/c 27 January.

- 1.5 Discussions with the Actuary have indicated that whole fund results will be available for this meeting, but individual employer results may not be if these generate results that can't be explained. The actuary has requested that the draft whole fund results are confidential until the valuation report is finalised.
- 1.6 The purpose of this agenda item will be to review the assumptions used by the Actuary so that the Committee is comfortable with the degree of prudence used in the valuation i.e.
- The assumptions for future inflation, interest rates, salary increases and investment returns etc;
  - The required level of probability of achieving full funding;
  - The deficit recovery period; and
  - That the process for setting contribution rates reasonably balances security of members pensions with affordability for employers.

#### Funding Strategy Statement

- 1.7 A draft Funding Strategy Statement ("FSS") is attached (appendix 2). The FSS is a summary of the Fund's approach to funding its liabilities. It focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and protections against employers having to subsidise defaulting employers. The draft has been circulated to employers for comment and will be discussed by the Local Pension Board on 10<sup>th</sup> February 2020. A summary of the significant changes from the previous FSS is attached (appendix 3). Any comments received from employers and the Local Pension Board will be brought to the attention of the Committee. The recommendation is that the draft FSS is approved.

## **2. REASONS FOR RECOMMENDATIONS**

- 2.1 The recommendations are in accordance with regulatory requirements for the triennial valuation.

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

- 3.1 None - statutory function

## **4. POST DECISION IMPLEMENTATION**

- 4.1 It is intended that the meeting will provide the assurances required by the Committee to enable the Actuary to finalise the 2019 triennial valuation and issue their report. A further

Committee meeting has been reserved for 31 March 2020 in case the Committee seek a further update before the report is concluded.

## **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 as set out in the Council's Corporate Plan for 2019-2024. xEmployers paid £48 million of contributions into the pension scheme in 2018/19. Changes in contribution rates can have a significant cashflow implication for employers and will impact on the Council's ability to spend in other areas.

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

5.2.1 There are no immediate financial implications from the report. However, higher deficits (particularly if sustained) may translate into higher contributions from the Council and other employers. Engaging with the Scheme Actuary during the 2019 triennial valuation will enable the Committee to identify ways to stabilise future contribution rates.

### **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 within the responsibilities of the Pension Fund Committee,

- To consider actuarial valuations and their impact on the Pension Fund.
- To review the Funding Strategy Statement at least triennially

5.4.2 The Local Government Pension Scheme Regulations 2013 (regulation 62) requires the Council to obtain an actuarial valuation of the assets and liabilities of each of its pension funds as at 31 March 2016 and as at 31 March in every third year afterwards. Regulation 58 requires the administering authority to prepare, maintain and publish a funding strategy statement. It must carry out consultation with such persons as it considers appropriate.

### **5.5 Risk Management**

5.5.1 The accuracy of the valuation relies on the accuracy of the data provided to the actuaries. 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.

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 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 3) 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. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.

## **5.7 Corporate Parenting**

5.7.1 Not applicable in the context of this report.

## **5.8 Consultation and Engagement**

5.8.1 Not required.

## **5.8 Insight**

5.8.1 The report provides insight into the future direction of employers' contribution rates.

## **6. BACKGROUND PAPERS**

6.1 The Actuary has attended three recent meeting (16 October 2018, 26 March 2019 and 29 July 2019). The papers for the October 2018 meeting include a background note to the valuation process and the timetable.

<https://barnetintranet.moderngov.co.uk/documents/g9498/Public%20reports%20pack%2016th-Oct-2018%2019.00%20Pension%20Fund%20Committee.pdf?T=10>