	Pension Fund Committee **28 October 2021**
Title	**Approval of Contribution Policies**
Report of	Director of Finance
Wards	All
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1 – Exit Credit Policy Appendix 2 – Deferred Debt and Debt Spreading Policy Appendix 3 – Contribution Review Policy
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Summary

Following consultation with the Local Pension Board and employers, the three contribution policies discussed at the July meeting are presented for approval. Amendments proposed following consultation are highlighted.

Officers Recommendations

That the Pension Fund Committee approve the three attached contribution policies.

1. WHY THIS REPORT IS NEEDED

1.1 In response to recent regulatory changes, three new polices dealing with contributions payable by employers have been prepared. These are:

- Exit credits – relates to surpluses on cessation
- Deferred Debt and Debt Spreading – relates to deficits on cessation
- Contribution review – relates to reviewing contribution rates between triennial valuations

1.2 The draft policies were discussed at Committee on 26 July 2021, and it was agreed that consultation should be undertaken with the Local Pension Board and employers. The draft policies were circulated to all employers and tabled at the recent Local Pension Board meeting and one response was received as a consequence of which amendments were made to two of the policies. These are now being represented to the Committee for final approval. The responses made and amendments made are discussed below.

Exit Credits

1.3 No comments were received, and the policy (appendix 1) is unchanged.

Deferred Debt and Debt Spreading

1.4 The response received to the consultation concerned:

- An ability for employers to discuss the availability of deferred debt or debt spreading potentially some time in advance of a cessation occurring so that different exit scenarios can be discussed that help the employer to manage and anticipate exit costs

  Officers are of the view that this is entirely reasonable and already reflected in the policy by the last paragraph in the section "Approach for exiting employer". In the run up to each triennial valuation we encourage employers to engage in the contribution setting process.

- Probably the most significant comment was a request to make a deferred debt or debt spreading arrangement available when adequate security was provided even if an employer could afford immediate repayment as this may offer a less costly exit to the employer. The policy is written on the basis that if an immediate full payment of deficit is affordable that a deferred debt or debt spreading agreement is not available. This approach is based on risk mitigation; if the deficit can be recovered in full immediately, offering delayed payment terms may increase the risk of not recovering in full. It is recognised that with adequate security, that risk might be low, but the exit will have to be managed potentially over a longish period. The policy was amended to say that impact on an employer's business would be a factor in determining immediate affordability.

- Clarification on the basis of determination of secondary (deficit) contributions was requested and has been included.

- The policy states that a DDA can be reviewed if there is a 10% change in funding position. It was considered that this could be triggered by market volatility. It was asked that this provision be removed.

  Officers are of the view that the wording (page 8) "may engage with the deferred employer to discuss a possible review of the DDA" does not suggest a DDA will be altered and that significant changes in funding level should trigger a review of the security of the agreement.

- The need for maximum time periods for both DDA and DSA were questioned. In particular could a DDA run until the deficit was eliminated through the normal setting of contribution rates at triennial valuations. We currently suggest a DDA lasts no longer than the deficit recovery period set out in the funding strategy statement. In relation to DSA's, the suggestion in the policy is an expectation of no more than five years, but that the Committee will determine the period.

  Officers are of the view that DDA's and DSA's are managed exits rather than long term arrangements. Each agreement would have a documented expiry date appropriate to the circumstances.

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Contribution Review

1.5 The response received to the consultation is discussed below:

- An employer should be notified as soon as a contribution review is commenced. That has been incorporated into the policy.

- There was some confusion between the period that employers had to respond; was it 28 days or 3 months.

  The policy how states 28 days, from the date on which revised contribution rates are provided but enables a longer agreed period to enable the employer to provide additional information.

- Revised contribution rates should not be backdated. This has been incorporated.

- To remove reference to McCloud uncertainty as a reason for a review. This has been amended.

- There should be consistency between the assumptions and the date at which the asset value is selected. This is agreed and the choice will be made by the Actuary.

2. REASONS FOR RECOMMENDATIONS

2.1 The Barnet Pension Fund can only consider the increased flexibilities in the LGPS Regulations if it agreed polices for the implementation.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Alternative suggestions arising from consultation responses are discussed in the paper.

4. POST DECISION IMPLEMENTATION

4.1 The policies will be published if approved.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 The Committee supports the delivery of the Council's strategic objectives and priorities as expressed through the Corporate Plan, by assisting in maintaining the integrity of the pension Fund by monitoring the administration and compliance of the Fund

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

5.2.1 Not applicable in the context of this report.

5.3 **Social Value**

5.3.1 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 Constitution – Under article 7 one of the responsibilities of the Pension Fund Committee is 'To consider approval and act in accordance with statutory Pension Fund documents – Funding Strategy Statement'. The polices discussed in this report will form part of the FSS.

5.4.2 The relevant regulations are the Local Government Pension Scheme Regulations 2013 as amended by the Local Government Pension Scheme (amendment) Regulations 2018 that place responsibility for the local administration of pensions and other benefits under these Regulations on the administering authority, which is the London Borough of Barnet. Legal references are highlighted throughout the paper.

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. Good governance is essential to managing the risks of the pension 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.

5.6.2 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 those with and those without protected characteristics, alike, provided that the criteria set out within

the relevant Regulations are met

5.7 **Corporate Parenting**

5.7.1 Not applicable in the context of this report.

5.8 **Consultation and Engagement**

5.8.1 Consultation with Scheme Employers is discussed in the report.

5.9 **Insight**

5.9.1 Linkage is made with guidance issues by both MHCLG and the Scheme Advisory Board.

6. BACKGROUND PAPERS

6.1 Papers to Pension Fund Committee 26 July 2021; agenda item 8.

Agenda for Pension Fund Committee on Monday 26th July, 2021, 6.00 pm (moderngov.co.uk)

6.2 MHCLG guidance

https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk/outcome/guidance-on-preparing-and-maintaining-policies-on-review-of-employer-contributions-employer-exit-payments-and-deferred-debt-agreements

6.3 Scheme Advisory Board Guidance

https://lgpsboard.org/index.php/empflexm