Pension Fund Committee

31 January 2023

Title	**2022 Triennial Valuation – Whole of Fund results**
Report of	Executive Director of Strategy and Resources
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Explanation of Two Stage contribution test Appendix B – Summary of provisional contribution rates (excl Middlesex University)
Officer Contact Details	David Spreckley, Head of Pensions and Treasury 020 8359 6264 david.spreckley@barnet.gov.uk

Summary

The funding position of the Pension Fund and rate of contributions paid by employers is assessed every three years by the Fund Actuary.

Officers shared details of the proposed assumptions and approach for the 31 March 2022 valuation at the 10 November 2022 Pension Fund Committee meeting. A consultation on the approach was held over the period 1 November 2022 to 31 December 2022.

This paper sets out final proposals for the approach we will adopt for the 31 March 2022 valuation and indicative contribution rates for employers.

Officers Recommendations

That the Committee agree to the modify the approach for certain employers to a two-stage test (as explained in Appendix A) to maintain stability of funding contributions.

1. WHY THIS REPORT IS NEEDED

1.1 The Committee are responsible for appointing a fund actuary and commissioning a triennial actuarial valuation in addition to formulating long term funding and investment strategies that ensure that the Fund has sufficient assets to pay benefits as they fall due.

1.2 Every three years the fund actuary assesses the funding position of the Pension Fund and determines the contributions payable by each employer for the next three years. The next valuation will be as at 31 March 2022 and the new rates and adjustment certificate will be effective from 1st April 2023.

1.3 A key part of the process is to determine the long-term assumptions to be used to calculate the actuarial liabilities and the level of confidence associated with that choice of assumption (i.e. the "prudence margin"). It is a legislative requirement that the collective assumptions used are set prudently. The Council's policy around actuarial assumptions is documented in a Funding Strategy Statement ("FSS").

1.4 It is good governance and a requirement of the regulations that the Council consults with interested stakeholders before finalising its FSS.

High-level valuation timetable

1.5 A high-level overview of the valuation process, with comment on progress, is summarised below.

Item	Time frame	Progress
Review Funding Strategy Statement and consider changes to assumptions consistent with maintaining the prudence margin at 2019 levels to calculate initial results (Barnet Pool)	June / July 2022	Complete
Consider prudence levels across employer base recognising covenant risk	July 2022	Complete – for tax raising bodies, academies and admitted bodies no change For Middlesex University, proposed changes reflecting covenant and likely maturation of liabilities is proposed. For Barnet & Southgate no change to approach pending review of underlying government guarantee
Cleanse membership data to use for valuation	By 31 July 2022	Analysing experience item see 1.11 below

Item	Time frame	Progress
Review draft 'whole of fund' results on initial prudence levels. Consider changes to prudence levels and likely contribution impact	November 2022	Considered at November PFC meeting
Consult with employers on any changes to Funding Strategy Statement	November to December 2022	Done Note introduction of two test approach to maintain Funding Stability for the 2022 valuation
Share draft results and contribution requirements with each employer	November to December 2022	Done
Finalise results and implement Rates and Adjustment certificate	By 31 March 2023	Pending
New contributions come into effect	From 1 April 2023	Pending

Update on Valuation process

1.6 We have concluded the valuation consultation and now submitted provisional results letters to all employers. We had very little feedback on the approach we are proposing to adopt, however, through the consultation, and after inspecting the provisional results with the Scheme Actuary, we have proposed a modification of the approach to help stabilise contribution rates.

1.7 The details of the modification made and the rationale for this is explained in Appendix A.

1.8 A summary of proposed contribution rates is set for all employers (excluding Middlesex University where we are having separate discussions) is set out in appendix B.

1.9 We are also exploring a modification of approach for the Council to reflect the impact of prepaying contributions following the 2019 valuation.

1.10 You will note that contribution rates for the majority of employers have remained the stable. This is consistent with our overall approach to keep contribution rates stable and legislative requirements.

1.11 Where contribution rates have increased, the Pension Team have organised a meeting with the impacted employer and if affordability is a concern we may discuss options around phasing in the propose increase.

Unexplained Data item

1.12 As noted at the November PFC meeting, there is a significant experience item due to unexplained data movements. This is likely to be due to improved data compared to the 31 March 2019 valuation. However, the experience item for data is significant and there is a potential risk that the data rectification was "over corrected".

1.13 We are still in process of analysing these differences but do not wish to delay the production of results due to this issue. The fund actuary is comfortable with this.

2. REASONS FOR RECOMMENDATIONS

2.1 Pension Funding is intrinsically uncertain and can be volatile. The Head of Pensions believes that the introduction of a two-stage test for the 2022 valuation is financially prudent and protects the sustainability of the Fund.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not implementing a second test for certain employers. The introduction of a second test for certain groups of employers was in response to initial results indicating that contribution rates would reduce for a large cohort of employers. The Head of Pensions, having taken advice of the fund actuary, did not feel it was appropriate to reduce contributions as initially indicated under test 1 at this time given likely headwinds and, specifically, commentary from the Scheme Advisory Board.

4. POST DECISION IMPLEMENTATION

4.1 The actions set out in the actuarial timetable will be followed.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 Employers paid £48 million of contributions into the pension scheme in 2021/22. 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 2022 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."

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 a funding strategy statement.

5.5 **Risk Management**

5.5.1 The level of prudence margin set with the actuarial basis impacts the level of risk pushed forward to future periods – the lower the prudence margin, the higher the likelihood that future cash contributions will need to increase.

5.5.2 The ability of employers to absorb future increases to cash contributions may be limited. At the same time, setting the prudence margin too high today may impact negatively on current budgets and the long-term viability of employers.

5.5.3 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.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equality 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.

5.7 **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. ENVIRONMENTAL CONSIDERATION

6.1 Not relevant.

7. BACKGROUND PAPERS

7.1 The Council's policy around actuarial assumptions is documented in a Funding Strategy Statement ("FSS"). The FSS for the 2019 valuation can be viewed: lbb_-_funding_stategy_statement.pdf (barnet.gov.uk)

7.2 A link to the November Committee papers covering the valuation is linked here

AUTHOR TO COMPLETE TABLE BELOW:

Who	Clearance Date	Name
Committee Chair		
Executive Director of Strategy and Resources		Anisa Darr
Enabling Board / Delivery Board		
Commissioning and Policy		
Equalities & Diversity		
HR Business Partner		
Strategic Procurement		
HB Public Law	16 January	Sharon Clarke
Finance		
Governance	15 January	Paul Frost