	Pension Fund Committee **22 March 2023**
Title	**2022 Triennial Valuation**
Report of	Executive Director of Strategy and Resources
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Final Funding Strategy Statement Appendix B – Valuation Report including the Rates & Adjustment Certificate **(exempt)**
Officer Contact Details	Mark Fox, Pensions Manager, 0208 359 3341

Summary

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

This paper provides the Committee with the final Funding Strategy Statement (FSS) used to determine the approach adopted for the 31 March 2022 valuation and the setting of employer contribution rates.

The paper highlights the approach used to set the contribution rates for the London Borough of Barnet and Middlesex University

The paper updates the Committee on progress to identify the unexplained data item highlighted in the Actuary's valuation report.

Officers Recommendations
The Pension Fund Committee are asked to approve the Funding Strategy Statement (FSS) for 2023 – 2026 and note the Rates & Adjustments Certificate (included in the draft Valuation Report as Appendix B) and updates on the valuation and unexplained data item.

1. WHY THIS REPORT IS NEEDED

1.1 The Committee is 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 last valuation was as at 31 March 2022, with 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
Cleanse membership data to use for valuation	By 31 July 2022	Analysing experience item (see 1.9 below)
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

Item	Time frame	Progress
		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	Done
New contributions come into effect	From 1 April 2023	Rates Agreed

Update on Valuation process

1.6 The final Funding Strategy Statement covering the period 1 April 2023 to 31 March 2026 is attached as Appendix A. As required by legislation, this document has been prepared by the Administering Authority in consultation with the Fund Actuary.

1.7 The Committee are asked for their approval of this document. The Rates and Adjustment Certificate implied by the FSS, which has been prepared by the Fund Actuary, is included in the Valuation Report in Appendix B.

1.8 There are two points to note regarding the FSS and Rates and Adjustment Certificate, which have been determined since the last Pension Fund Committee on 31 January 2023:

London Borough of Barnet ("the Council")

1.8.1 As detailed in paragraph 1.9 of the paper presented to the Committee at the 31 January 2023 meeting, the LBB Pensions Team were exploring a modification of approach for the Council to reflect the impact of prepaying contributions following the 2019 valuation.

1.8.2 In 2019, the Council's primary contribution rate on the Rates & Adjustment Certificate was based on a percentage of pay, but the secondary contribution rate was a fixed amount. In practice, over the period 1 April 2020 to 31 March 2023, the Council paid an employer contribution rate of 28.9% of pay (representing both the Primary and Secondary rates of contributions). The primary motivation for this is that it is complicate to allocate fixed nominal amounts between the various school employers.

1.8.3 The pensions team have undergone some testing of current rate of 28.9% against the strict amounts specified in the Rates and Adjustment certificate and can confirm that the amounts paid were at least sufficient to cover what was required (estimated by around £500k p.a. based on a payroll of £90m).

1.8.4 From an audit perspective, it is clearer to pay contributions in the same manner as specified in the Rates and Adjustment certificate and so the Rates and Adjustment certificate which covers the period 1 April 2023 to 31 March 2026 will set the Council's primary and secondary contribution rate as a percentage of pay.

1.8.5 The application of the 2022 valuation approach and assumptions leads to a required rate of 27.4% of pay, but that a rate of 28.4% will apply because:

1.8.5.1 The LBB Pensions Team wish to stabilise the employer contribution rate, so it is not reduced too soon, thus possibly requiring an increase following the 2025 valuation. This is the reason why "Test 2" (as detailed in the FSS) was introduced for the 2022 valuation for certain employers.

1.8.5.2 In setting a rate of 28.4% the Pensions Team has had regard to Test 2. The softer version relative to other employers in the Fund reflects the increased covenant of the Council relative to other employers.

1.8.5.3 As mentioned, switching the whole rate to a percentage of pay method is administratively easier to apply. However, the LBB Pensions Team also expect the total payroll for the Council to increase by more than assumed by the Actuary over the next three years (e.g. due to inflationary pressures and insourcing of various contracts) and so a modest reduction to the current contribution rate feels justified for the Council.

Middlesex University ("MU")

1.8.6 As previously notified the LBB Pensions Team have been discussing an appropriate funding approach for Middlesex University which recognises their covenant profile within the Fund.

1.8.7 Following the 2019 valuation, and from 1 July 2020, MU were paying a Primary Contribution rate of 20.7% of pay plus equivalent to a Secondary Contribution rate of 5.2% of pay.

1.8.8 The Pensions Team, in consultation with MU, have sought to develop a Funding Strategy that seeks to take less risk in future. These discussions have been helped by a significant change to market conditions since the 31 March 2022 (which has seen MU's deficit on a cessation basis reduce by more than £100m).

1.8.9 Following discussions, it has been agreed that MU will increase their contribution rates to broadly 32% of pay, which represents around a 5% p.a. increase to their current contribution rates. This contribution broadly targets a low-risk funding position over a 15 year period.

1.8.10 In addition, the Pensions Team will be working with MU to develop an investment strategy that supports an appropriate level of risk. We will also be working with MU over the next 12 months to implement appropriate covenant monitoring and protection measures.

1.8.11 Overall, the outcome for MU is positive for all stakeholders.

Unexplained Data item

1.9 As noted at the last two Committee meetings, 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".

1.10 We are still in process of analysing these differences and will bring a report to the July Committee meeting.

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**

The Council's Constitution (Article 7) – includes within the responsibilities of the Pension Fund Committee, "*To consider approval and act in accordance with statutory Pension Fund documents:*

- *Investment Strategy Statement*
- *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."

5.4.1 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