



Pension Fund Committee

2 November 2023

Title	Temporary Easement In Contribution
Date of meeting	2 November 2023
Report of	Chief Executive (Head of Paid Services)
Wards	All
Status	Public
Urgent	No
Appendices	None
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Summary

This report requests for the Pension Fund Committee to consider a series of options for the London Borough of Barnet, as an employer, to have a temporary easement in contributions towards the Pension Fund.

Recommendations

1. That the Pension Fund Committee considers the request of a temporary easement in employer contribution as set out in the paper.
2. That the Pension Fund Committee considers what additional assurances it would like in respect of the surplus position ahead of the next valuation.
3. That the Pension Fund Committee considers its position in relation to the existing policy.

1. Reasons for the Recommendations

- 1.1 This report updates the Pension Fund Committee on the national, regional and local financial landscape, its impact on the Medium Term Financial Strategy (MTFS) and options for consideration in respect of the employer contribution London Borough of Barnet makes to the Pension Fund.

1.2 The request is made on the basis of:

- An understanding the Pension Fund is at 130% funded and therefore in surplus;
- At the previous triennial valuation Hymans would have agreed to a 1% reduction in employer contribution, which the council chose not to take to maintain stability;
- “Employer Flexibilities” regulations introduced in 2020 provide a mechanism for the Rates and Adjustment certificate to be reviewed in between valuations;
- Since 31 Mar 2022 there has been a shift in national and local environment as set out in para 1.7. This has resulted in an in-year pressure on the council’s revenue position which will have an ongoing impact on future years. The impact is felt more acutely in 2024/25 and 2025/26, long term plans to address this through digital transformation and prevention is in place but takes time and therefore the temporary easement is requested – which would have the impact of protecting our revenues reserves position;
- The council is reviewing all aspects of expenditure and therefore in that spirit it is appropriate to also review the employer contribution, particularly as it is continuing to increase the surplus that exists in the Pension Fund while continuing to draw down on reserves the council holds. Reduction in reserves will have an adverse impact on the council’s ability to absorb future risks and therefore also has a potentially adverse impact on the Pension Fund.

Local Government and London Context

- 1.3 On 12 October 2023 London Councils published its representation to HM Treasury ahead of the Autumn Statement (expected on 22 November 2023). It had specific asks around housing and homelessness, Adult social care, Children’s services and supporting asylum seekers and refugees.
- 1.4 More generally London Councils set out that resources in London remain a fifth lower than in 2010, while the population has increased by almost 800,000. This pressure has been exacerbated by over £1bn in unfunded and underfunded new burdens over that period.
- 1.5 It sets out that 9 in 10 boroughs are expected to overspend on budget in 2023/24 by over 400m in total, with 1 in 4 forecasting overspends of over £20m. Savings of over £500m will be required across London in 2024/25 to balance budgets, as part of almost £2bn over next 4 years. Their analysis shows that outer London boroughs are the lowest funded per capita in the country and face particularly tough choices.

Barnet forecast for 2023/24 as at Q1

- 1.6 On 4 Sept 2023, Overview and Scrutiny Committee received a report on the forecast position for 2023/24 as at quarter 1. This shows a forecast overspend of £23m.
- 1.7 There are a number of national and local factors driving this position:
- Inflation: Bank of England, Office for National Statistics and other forecasting organisations were estimating inflation to be around 5-6% in 2023, based on this intelligence the council budgeted for non-pay inflation to be just under 8%. The

average non-pay inflation across contracts (including fuel, electricity and social care contracts factoring London Living Wage) was just under 10%;

- Interest rates: while interest rates are slowly decreasing, the Bank of England base rate rose to 5.25% in August 2023, this means externalising internal borrowing at a time of decreasing cash reserves is expensive;
- Contingency hotels: Barnet has 5 hotels in the borough being used by the Home Office to house approx. 1600 asylum seekers. On the 1 Aug 2023 the Home Office announced a change in procedure for discontinuation of asylum support for those who have received a decision – from 28 or 21 days to 7 days. The Home Office is also pursuing hotel maximisation through room sharing, meaning more people on receiving their right to remain could become eligible for housing within the borough. Good quality, housing at Local Housing Allowance (LHA) rate is in low supply and therefore increases costs for the council – subsidy is only claimable for temporary accommodation at 90% and landlords are charging rates over LHA rates;
- Changes to tax benefits for landlords: the Government’s changes to tax benefits to landlords has seen a number of them exit the market further reducing the supply of housing available;
- Adult social care: assumptions were made around the increase in demand and actuals have exceeded this, discharges from hospitals – where statistics show that Barnet is now the 2nd highest in London (887 per 100,000, compared to London average of 687 per 100,000) – has driven further increases in use of homecare and reablement;
- Independent Fostering Agencies (IFA): as a result of placement sufficiency nationally and locally, more IFA placements are needed for sibling groups and children with more complex behaviours. Delays within the court system have also meant existing placements have had to be extended, compounding the issue;
- Increase in solo provision placements: while exceptional in nature, these placements - for the safety of the child and / or others – are very high. Placements for six young person this year have resulted in an overspend of about £1.7m;
- Special Parking Account: changes in parking and travel behaviours associated with cost of living crisis and increased prevalence of working from home has resulted in reduced parking income. This year the deficit is estimated to be £3m, this is on top of funded deficits in the previous two years of similar amounts.

1.8 The council holds a number of useable reserves for specific purposes and to mitigate against unforeseen in year risks materialising. We hold general fund balances of £15m and earmarked reserves as at 31 Mar 2022 of £127m. These earmarked reserves include Community Infrastructure Levy (CIL), grant funded reserves and other reserves. Planned use against these categories and offsetting the forecast overspend would reduce ‘other reserves’ to approx. £25m. It is important to protect this position to ensure there continues to be a buffer for future uncertainties.

Medium Term Financial Strategy (MTFS)

1.9 The detailed Medium Term Financial Strategy (MTFS) along with savings templates are due to be presented to Overview and Scrutiny on 21 Nov 2023. However, the headlines are expected to be savings of approx. just under £100m to be found by 2030, with just under half of this

falling in 2024/25 (driven primarily by the in year forecast overspend – as detailed in para 1.6-1.7).

- 1.10 One of the options, being requested for the Pension Fund Committee to consider, to close the gap is a temporary easement in employer contribution in the region of £5-£8m in 2024/25 and 2025/26. The mechanism of this will need to be advised by the actuary, legal advisors and internal policies.
- 1.11 For the PFC's information, at the 31 March 2022 valuation, the Actuary would have accepted 27.4% as a contribution (projected over 17 years), however the council agreed to pay 28.4% to ensure stability. The estimate of the difference between 27.4% and 28.4% (as estimated by the council and subject to confirmation by the actuary) is worth around £10m in total, over the 17 year period.
- 1.12 It is understood that the current internal policy will need to be reviewed and updated and therefore PFC are asked to consider this.
- 1.13 The council also recognises that the surplus position is subject to market conditions and could unwind and therefore the council would invite the PFC to comment on whether a periodic or annual review of surplus would be appropriate.
- 1.14 Provision of the Local Government Finance Act 1992 sets out the legal requirement that a council must set a balanced budget by 11 Mar of the preceding one in respect of which the budget is set. This means the council would need a decision from PFC by mid-November in order to progress to Cabinet, public consultation and then full Council.

2. Alternative Options Considered and Not Recommended

- 2.1 'Do Nothing' option was considered but not deemed to be financially responsible. Do nothing would, in practice, mean increasing an overfunded pension reserve whilst drawing down on slim revenue reserves and this is unlikely to be in the long-term best interests of residents.

3. Post Decision Implementation

- 3.1 Further discussion with the Actuary and Legal to work through mechanisms of allowing the employer contribution to be reduced temporarily.

4. Corporate Priorities, Performance and Other Considerations

Corporate Plan

- 4.1 The request set out here supports Our Plan for Barnet 2023-26. Under 'Being an effective and engaged council' the priority set out is 'making the best possible use of our financial resources, now and in the future, so that we are able to continue to deliver on what matters to Barnet residents'.

Corporate Performance / Outcome Measures

- 4.2 Not applicable in the context of this report.

Sustainability

- 4.3 Not applicable in the context of this report.

Corporate Parenting

- 4.4 In line with Children and Social Work Act 2017, the council has a duty to consider Corporate Parenting Principles in decision-making across the council. The outcomes and priorities in Our Plan for Barnet 2023-26, reflect the council's commitment to the Corporate Parenting duty to ensure the most vulnerable are protected and the needs of children in care and care leavers when approaching business planning, to ensure decisions are made through the lens of what a reasonable parent would do for their own child.
- 4.5 Council, in setting its budget, considers the Corporate Parenting Principles both in terms of savings and investment proposals. The council's proposal seeks to protect front line social work and services to children in care and care leavers by finding alternative savings.

Risk Management

- 4.6 Risk management is central to the Local Government Pension Scheme (LGPS) and the council and this request by the council is attempting to manage risks in both areas.

Insight

- 4.7 The council uses a number of sources in informing the Medium Term Financial Strategy, including Office for Budgetary Responsibility (OBR), Office for National Statistics (ONS) and interest rate forecasts from advisors. In addition to this the council uses trend available for council tax and social care demand.

Social Value

- 4.8 Not applicable in the context of this report.

5. Resource Implications (Finance and Value for Money, Procurement, Staffing, IT and Property)

- 5.1 Effective investment management is key to the sustainability of the Pension Fund.

6. Legal Implications and Constitution References

- 6.1 Under the Council's Constitution, Part 2B of the terms of reference for the Pension Fund committee includes: "the committee have responsibility for all aspects of the governance, investment and administration of the LB Barnet Pension fund, including - but not limited to the following:
- 6.2 To ensure compliance with all Local Government Pension Scheme statutes, regulations and best practice.
- 6.3 To consider actuarial valuations and their impact on the Pension Fund.

7. Consultation

- 7.1 Not applicable in the context of this report.

8. Equalities and Diversity

- 8.1 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. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to the public-sector equality duty.

- 8.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The [Public Sector Equality Duty](#) requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements will benefit everyone who contributes to the fund.

9. Background Papers

- 9.1 Overview and Scrutiny – 4 Sept 2023 – Q1 financial performance: [\(Public Pack\)Q1 Financial Performance Agenda Supplement for Overview and Scrutiny Committee, 04/09/2023 19:00 \(modern.gov.co.uk\)](#)