

# London Borough of Barnet Pension Fund

## Contribution review policy

### 1. Introduction

- 1.1 This document sets out the London Borough of Barnet Pension Fund's policy on amending the contribution rates payable by an employer (or group of employers) between formal funding valuations.
- 1.2 London Borough of Barnet Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.
- 1.3 Under Regulation 62, London Borough of Barnet, as the administering authority for the Fund, acting through its Pension Fund Committee, is required to obtain a formal actuarial valuation of the Fund and a rates and adjustments certificate setting out the contribution rates payable by each Scheme employer for three-year period beginning 1 April following that in which the valuation date falls.
- 1.4 It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the Pension Fund Committee. This policy document sets out the Pension Fund Committee's approach to considering the appropriateness of a review and the process in which a review will be conducted.
- 1.5 This policy has been prepared by the Pension Fund Committee and has been reviewed by the Fund Actuary and following consultation with the Fund's Scheme employers. In drafting this policy document, the Pension Fund Committee has taken into consideration the statutory guidance on drafting a contribution review policy which was issued by the Ministry of Housing, Communities and Local Government, and the Scheme Advisory Board's guide to employer flexibilities.
- 1.6 Throughout this document, any reference to the review of a Scheme employer's contribution rates will also mean the single review of the contribution rates for a group of Scheme employers (for example if the employers are pooled for funding purposes).
- 1.7 Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the Pension Fund Committee can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under this contribution review policy.

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### 2. The review process

- 2.1 The events that may trigger a review are set out in the Triggering a contribution review section. The general process for assessing and conducting a review is set out below. Timescales may vary in practice depending on each individual circumstance, but the timeline below provides a rough guide of the Pension Fund Committee's general expectation.
- 2.2 Following completion of the review process, the Pension Fund Committee may continue to monitor the Scheme employer's position in order to ensure the revised contribution rate remains appropriate (where a review was completed) or to ensure the Scheme employer's situation does not change such that a review previously deemed not appropriate becomes appropriate. As part of its participation in the Fund, any Scheme employer is expected to support any reasonable information requests made by the Pension Fund Committee in order to allow effective monitoring.

### 3. Timeline where initiation is made by the Pension Fund Committee

- 3.1 Where the review is initiated by the Pension Fund Committee (i.e. under conditions (i) and (ii) in the Triggering a contribution review section), the employer will be notified that a review is underway and the reasons for the review. After the Pension Fund Committee has conducted its analysis, they will engage with the Scheme employer and provide written evidence for undertaking the review.
- 3.2 The Scheme employer will be given 28 calendar days from the later of (1) the date of receipt of the evidence provided by the Pension Fund Committee and (2) the date of receipt of the results of the formal contribution review to respond to the Pension Fund Committee on the proposal. It is intended that employer notification will not be deferred awaiting on actuarial results. Should no challenge be accepted within this period then the Pension Fund Committee will treat the proposal as accepted and the revised contribution rates will come into effect from the proposed date, which will be effective no earlier than the end of the appeals process and will not be backdated to a prior period.
- 3.3 Should the Scheme employer challenge the Pension Fund Committee's evidence for a review, then the Pension Fund Committee will continue to engage with the Scheme employer in order to reach an agreeable decision. Should the Committee accept the 20 employer's arguments, the review will be terminated. If no decision has been agreed within 28 calendar days of the proposed revised contribution rates being provided to the employer, then the Pension Fund Committee may proceed with the revised contribution rates unless an extension is granted to allow the employer to furnish additional information within an agreed timescale. Further details of the appeals process for the Scheme employer is set out in the Appeals process section.

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3.4 Although the ultimate decision for review belongs to the Pension Fund Committee, the Pension Fund Committee is committed to engaging with any Scheme employer following the initial proposal to ensure that any change is agreeable to all relevant parties.

### 4. **Timeline where initiation is made by the Scheme employer**

4.1 Where the review is initiated by the Scheme employer, the process begins once the Scheme employer has provided all the relevant documents required as set out in the Triggering a contribution review section.

4.2 The Pension Fund Committee will aim to provide a response to the Scheme employer within 28 calendar days from the date of receipt. This will depend on the quality of the documents provided and any need from the Pension Fund Committee to request further information from the Scheme employer. The Pension Fund Committee will provide a written response setting out the issues considered in reviewing the request from the Scheme employer, together with the outcome and confirming the next steps in the process.

### 5. **Responsibility of costs**

5.1 Where the review of contributions has been initiated by the Pension Fund Committee, any costs incurred as part of the review in relation to the gathering of evidence to present to the Scheme employer and the actuarial costs to commission the contribution review will be met by the Fund. This is with the exception of any costs incurred as a result of extra information requested by the Scheme employer which is not ordinarily anticipated to be incurred by the Pension Fund Committee as part of the review. These exception costs would be recharged to the Scheme employer.

5.2 Any costs incurred as a result of a review initiated by the Scheme employer will be the responsibility of the Scheme employer, regardless of the outcome of the review proceeding or not. This may include specialist adviser costs involved in assessing whether or not the request for review should be accepted and the costs in relation to carrying out the review.

### 6. **Triggering a contribution review**

6.1 As set out in Regulation 64(A)(1)(b), a review of an employer's contribution rate between formal actuarial valuations may only take place if one of the following conditions are met:

i. it appears likely to the Pension Fund Committee that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;

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ii. it appears likely to the Pension Fund Committee that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or

iii. a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

6.2 Conditions (i) and (ii) are triggered by the Pension Fund Committee and (iii) by the Scheme employer. The key considerations under each of the conditions are detailed below.

6.3 It should be noted that the conditions are as set out in the Regulations therefore do not allow for a review of contributions where to be triggered by the administering authority is due to a change in actuarial assumptions or asset values (except in circumstances such as an employer nearing cessation).

### 7. Change in the amount of the liabilities arising or likely to arise

7.1 Examples of changes which may trigger a review under this condition include, but are not limited to:

- Restructuring of a Multi Academy Trust.
- A significant outsourcing or transfer of staff.
- Any other restructuring or event which could materially affect the Scheme employer's membership.
- Changes to whether a Scheme employer is open or closed to new members, or a decision which will restrict the Scheme employer's active membership in the fund in future.
- Significant changes to the membership of an employer, for example due to redundancies, significant salary awards, ill health retirements or a large number of withdrawals.
- Establishment of a wholly owned company by a scheduled body which does not participate in the LGPS.
- There are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation.

7.2 In terms of assessing the triggers under a) above, the Pension Fund Committee will only consider a review if the change in liabilities is expected to be more than 10% of the total liabilities.

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7.3 As part of its participation in the Fund, Scheme employers are required to inform the Pension Fund Committee of any notifiable events as set out in the Fund's Pensions Administration Strategy, service agreements and/or admission agreements. Through this notification process, the Pension Fund Committee may identify events that merit a review of contributions.

7.4 In addition, the Pension Fund Committee may initiate a review of contributions if they become aware of any events that they deem could potentially change the liabilities of the Scheme employer. This also applies to any employers for whom a review of contributions has already taken place as a further change in liabilities may merit another review.

### **8. Change in the ability of the Scheme employer to meet its obligations**

8.1 Examples of changes which may trigger a review under this condition include, but are not limited to:

- Change in employer legal status or constitution
- Provision of, or removal of, security, bond, guarantee or some other form of indemnity by a Scheme employer
- A change in a Scheme employer's immediate financial strength
- A change in a Scheme employer's longer-term financial outlook
- Legal proceedings linked to allegations of unlawful business activity
- Decision to cease business
- Breach of banking covenant
- Concerns felt by the Pension Fund Committee due to behaviour by a Scheme employers, for example, a persistent failure to pay contributions (at all, or on time), or to reasonably engage with the Pension Fund Committee over a significant period of time.

8.2 The Pension Fund Committee monitors the level of covenant of its Scheme employers on an ongoing basis. This may affect the Pension Fund Committee's views on whether the ability of a Scheme employer to meet its obligations to the Fund has changed significantly and therefore, whether this change may merit a contribution review. This also applies to any employers for whom a review of contributions has already taken place as a further change in an employer's ability to meet its obligations may merit another review.

8.3 In this instance, any review of the contribution rate would include consideration of the updated funding position (both on an ongoing and termination basis) and would usually allow for changes in asset values when considering if the employer can meet its obligations on both an ongoing and termination basis (if applicable). This could then lead

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to the following actions:

- The contributions changing or staying the same depending on the conclusion, and/or;
- Security to improve the covenant to the Fund.

### 9. Request from the Scheme employer for a contribution review

9.1 A request can be made by a Scheme employer for a review of contribution rates outside of the formal actuarial process. This should normally be triggered by one of the following two conditions:

- There has been a significant change in the liabilities arising or likely to arise; and/or
- There has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

9.2 Any requests not arising from either of these conditions will only be considered by the Pension Fund Committee in exceptional circumstances. An employer request based purely on a change in market conditions affecting the value of assets and or liabilities will not normally be allowed. In most cases, requests by a Scheme employer are limited to one review per calendar year.

9.3 With the exception of any cases where the Scheme employer is expected to cease before the next rates and adjustments certificate comes into effect, the Pension Fund Committee will not accept a request for a review of contributions with an effective date within the 12 months preceding the next rates and adjustments certificate. It is expected in these cases that any requests can be factored into the formal review and any benefits of carrying out a review just prior to the commencement of a new rates and adjustments certificate are outweighed by the costs and resource required. If a request is made with an effective date within the 12 months preceding the next rates and adjustments certificate, the Pension Fund Committee will instead reflect these changes in the actuarial valuation and the rates being certified and taking effect the year following the valuation date.

### 10. Information required from the Scheme employer

10.1 In order to submit a request for a review of contribution rates outside of the formal actuarial valuation process, a Scheme employer must provide the following to the Fund, along with an explanation of why a review is considered appropriate:

- Where a review is sought due to a potential change in the Scheme employer's liabilities:
  - o Membership data or details of membership changes to evidence that the liabilities have materially changed, or are likely to change

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- Where a review is sought due to a potential change in the ability of the Scheme employer to meet its obligations:
  - o Up to date financial information and accounts for the Scheme employer, which will normally need to include the following documents or equivalent information:
  - o The most recent management accounts
  - o Financial forecasts for a minimum of three years
  - o Any change in the security or guarantee to be provided in respect of the Scheme employer's liabilities

10.2 The Pension Fund Committee may require further evidence to support the request and this will be requested from the Scheme employer on a case-by-case basis.

### 11. Assessing the appropriateness of a review

11.1 The following general considerations will be taken into account by the Pension Fund Committee, regardless of the condition under which a review is requested:

- the expected term for which the Scheme employer will continue to participate in the Fund;
- the time remaining to the next formal funding valuation;
- the cost of the review relative to the anticipated change in contribution rates and the benefit to the Scheme employer, the Fund and/or the other Scheme employers; and
- the anticipated impact on the Fund and the other Fund employers, including the relative size of the change in liabilities and contributions and any change in the risk borne by other Fund employers.

11.2 Where the review has been requested by the Scheme employer, the Pension Fund Committee will also consider the information and evidence put forward by the Scheme employer. This may be with advice from the Fund Actuary where required and will include an assessment of whether there is a reasonable likelihood that a review would result in a change in the Scheme employer's contribution rates. The Pension Fund Committee will also consider whether it is necessary to consult with any other Scheme employer e.g. where a guarantee may have been provided by another Scheme employer.

11.3 Whether any changes require the Pension Fund Committee to exercise its powers to carry out a contribution review will be assessed on a case by case basis and with advice from the Fund Actuary and may involve other considerations as deemed appropriate for the situation. The final decision of whether a review of contribution rates will be carried out rests with the Pension Fund Committee after, if necessary, taking advice from the Fund Actuary. Should a Scheme employer disagree with the Pension Fund Committee, then details of the Appeals process is set out later in this document.

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### 12. Appropriateness of a review due to change in liabilities

12.1 This will be subject to the following considerations in addition to the general considerations set out above:

- the size of the Scheme employer's liabilities relative to the Fund and the extent to which they have changed;
- the size of the event in terms of membership and liabilities relative to the Scheme employer and/or the Fund; and
- the Pension Fund Committee's assessment of the ability of the Scheme employer to meet its obligations.

### 13. Appropriateness of a review due to change in ability to meet its obligations to the Fund

13.1 In assessing whether or not the Pension Fund Committee will exercise its powers to review a Scheme employer's contribution rates under this condition, the Pension Fund Committee will take into account the general considerations set out earlier in this section and:

- The results of any employer risk analysis undertaken by a suitable entity, if the Pension Fund Committee considers that such an analysis is required.
- The perceived change in the value of the indemnity to the Fund, relative to the size of the Scheme employer's liabilities.

13.2 It is acknowledged that each Scheme employer's situation may differ and therefore each decision will be made on a case-by-case basis. Further considerations to that set out above may be relevant and will be taken into account by the Pension Fund Committee as required.

13.3 For the purposes of an employer review request, in particular in the case of an employer which is a local authority or other tax-raising or other publicly funded body, the Pension Fund Committee will be prepared to consider not only the employer's absolute ability to meet its obligations to the Fund, but also its ability to do so consistently with its other public responsibilities.

13.4 For the avoidance of doubt, a request for a review made on the basis of changes in an employer's ability to meet its obligations to the Fund may include both a request made on the basis that the employer's covenant strength has improved, and a request made on account of short-term difficulty in meeting required contributions, but in the latter case no such request will be granted unless the Pension Fund Committee is satisfied that to do so will not materially prejudice the long-term solvency or other interests of the Fund and its members.

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### 14. Method used for reviewing contribution rates

- 14.1 If a review of contribution rates is agreed, or if an indicative review is required to help inform the review process, the Pension Fund Committee will take advice from the Fund Actuary on the calculation of the Scheme employer’s revised contribution rates. This will take into account the events leading to the anticipated liability change and any impact of the changes in the Scheme employer’s ability to meet its obligations to the Fund.
- 14.2 The starting point for reviewing a Scheme employer’s contribution rates will in most cases be the most recent actuarial valuation. The table below sets out the general approach that will be used when carrying out this review.
- 14.3 Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date.

	<b>General approach</b>
Member data	In some cases, where the review is happening during or shortly after the valuation, the most recent actuarial valuation data will be used as a starting point.
Approach to setting assumptions	This will be in line with that adopted for the most recent actuarial valuation, and in line with that set out in the Fund’s Funding Strategy Statement.
Market conditions underlying financial assumptions	Unless an update is deemed more appropriate by the Fund Actuary (e.g. where an employer is targeting exit from the Fund), the market conditions will be in line with those at the most recent actuarial valuation.
Conditions underlying demographic assumptions	Unless an update is deemed more appropriate by the Fund Actuary, the conditions will be in line with those at the most recent actuarial valuation.
Funding target	The funding target adopted for a Scheme employer will be set in line with the Fund’s Funding Strategy Statement, which may be different from the approach adopted for the particular employer at the most recent actuarial valuation due to a change in the Scheme employer’s circumstances.

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	<b>General approach</b>
Time horizon	The funding time horizon adopted for a Scheme employer will be set in line with the Fund's Funding Strategy Statement, which may be different from the approach adopted at the most recent actuarial valuation due to a change in the Scheme employer's circumstances.
Assets Allocated to the employer	To be calculated either as at the date of the most recent triennial valuation or the General approach date of review as determined by the Actuary as appropriate.

14.4 The Fund Actuary will be consulted throughout the review process and will be responsible for providing revised rates and adjustments certificate. Any deviations from the general approaches set out above will be agreed by the Pension Fund Committee and the Fund Actuary.

### **15. Appeals process**

15.1 The final decision as to whether a change in contributions is to be implemented will rest with the Pension Fund Committee after, if necessary, taking advice from the Fund Actuary. In the event of any dispute from an employer, the Fund will seek to engage with the employer and a further 28 calendar days (which can be extended if both parties agree an alternative timetable to provided additional information) will be granted in which further discussions can take place to seek a resolution. Any further dispute or appeal will be referred to the Pension Fund Committee for final determination.

15.2 In raising any dispute or appeal, an employer is required to evidence at least one of the following:

- i. A deviation from the published policy or process by the Pension Fund Committee; and/or
- ii. Any further information (or interpretation of information provided) which could influence the outcome, noting new evidence to be considered at the discretion of the Pension Fund Committee.

15.3 An appeal will be considered within 28 calendar days of receipt of all required information.

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