

London Borough of Barnet Pension Fund

Funding Strategy Statement covering the period 1 April 2026 to 31 March 2029

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London Borough of Barnet Pension Fund

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1 Purpose of the London Borough of Barnet Pension Fund and funding strategy statement

This document sets out the funding strategy statement (FSS) for the London Borough of Barnet Pension Fund.

The London Borough of Barnet Pension Fund is administered by Barnet Council, known as the administering authority. Barnet Council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective over the period 1 April 2026 to 31 March 2029.

There's a regulatory requirement for Barnet Council to prepare an FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact pensions@barnet.gov.uk.

1.1 What is the London Borough of Barnet Pension Fund?

The London Borough of Barnet Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

1.2 What are the funding strategy objectives?

In addition to the overall aims highlighted in the preface document, the more general funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependents.
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency.
- where appropriate, ensure stable employer contribution rates.
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy.
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.
- the Fund will engage with employers when developing funding strategy in a way which balances the risk appetite of stakeholders.

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1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Barnet Council has a number of wholly owned subsidiary companies who participate in the Fund and these have been treated as Scheduled Bodies.

Middlesex University and Barnet & Southgate College are substantial Scheduled Bodies within the Fund.

Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

The Scheme Advisory Board refer to three different tiers of employers which may participate in the LGPS, specifically:

- Tier 1 – Local Authorities (including contractors participating in the LGPS with Local Authority backing)
- Tier 2 – Academy Trusts and Further Education Institutions (Colleges).

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- Tier 3 – Standalone employers with no local or national taxpayer backing. Include universities, housing associations and charities.

1.4 How is the funding strategy specific to the London Borough of Barnet Pension Fund?

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.

1.5 How often is the Funding Strategy Statement reviewed?

The FSS is reviewed in detail at least every three years ahead of the triennial actuarial valuation and an annual check is carried out in the intervening years.

Amendments to the FSS may be in the following circumstances:

- material changes to the scheme benefit structure (e.g. HM Treasury-led)
- on the advice of the fund actuary
- Significant changes to investment strategy or if there has been significant market volatility which impacts the FSS or goes beyond FSS expectation
- if there have been significant changes to the fund membership and/or fund maturity profile
- if there have been significant or notable changes to the number, type, or individual circumstances of any of the employing authorities to such an extent that they impact on the funding strategy (e.g. exit/restructuring/failure) which could materially impact cashflow and/or maturity profile and/or covenant)
- if there has been a material change in the affordability of contributions and/or employer(s) financial covenant strength which has an impact on the FSS.
- recommendations from MHCLG/GAD.

In undertaking such reviews, the administering authority should consider:

- looking at experiences in relation to long-term funding assumptions (in terms of both investment income and forecast contributions income) and consequences of actions taken by employers (e.g. pay awards and early retirements)
- the implications for the funding strategy and, if significant, determine what action should be taken to review the FSS

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- the implications arising from the funding strategy for meeting the liabilities of individual employers and any amendments required to the ISS
- consulting with individual employers specifically impacted by any changes as an integral part of the monitoring and review process and ensuring any communication regarding a review won't necessarily lead to rates changes for individual employers but could impact admissions, terminations, approach to managing risk and employer risk assessment.

Any amendments will be consulted on, approved by the Pensions Committee and included in the Committee meeting minutes.

This Funding Strategy Statement is effective from 1 April 2026 and is expected to remain in force until 31 March 2029 at the latest, unless an interim review is carried out prior to then.

1.6 Links to Administration Strategy

The fund maintains an Administration Strategy Statement which outlines the responsibilities, standards and procedures for employers and the fund. A copy of this can be found [here](#).

Adherence with the requirements of the Administration Strategy Statement is crucial to ensure the well-running of the pension fund and any failure to do so may lead to uncertainty around the value of an employer's liabilities and the need for prudent assumptions to fill any data gaps.

1.7 Actuarial valuation report

LGPS Regulations (specifically Regulation 62) require an actuarial valuation to be carried out every three years, under which contribution rates for all participating employers are set for the following three years. This Funding Strategy Statement sets out the assumptions and methodology underpinning the 2025 actuarial valuation actuarial exercise.

The actuarial valuation report sets out 1) the actuary's assessment of the past service funding position, and 2) the contributions required to ensure full funding by the end of the time horizon.

The Rates and Adjustments certificate shows the contribution rates payable by each employer (which may be expressed as a percentage of payroll and/or monetary amounts).

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2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contribution rates are determined by a mandatory actuarial valuation exercise and are made up of the following elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution

The primary rate also includes an allowance for the fund's expenses.

The fund actuary uses a methodology known as Asset Liability Modelling to set employer contribution rates. Under this methodology, for a given proposed employer contribution rate, the model projects future asset and liability values for the employer under 5,000 different simulations of the future economic environment. Each simulation – generated by Hymans Robertson's Economic Scenario Service (ESS) model - has a different path for future interest rates, inflation rates and the investment return on different asset classes. This approach allows the fund actuary to understand the potential range of future funding outcomes that could be achieved via payment of that contribution rate.

The fund has set *funding strategy criteria* for each employer in the fund which must be satisfied in order for a given employer contribution to be deemed acceptable. The funding strategy criteria are specified in terms of the following four parameters:

- **the target funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the funding basis** – the set of actuarial assumptions used to value the employer's (past and future service) liabilities
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

For example, an employer's funding strategy criteria may be set as follows:

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The employer must have at least a 75% likelihood of being 100% funded on the ongoing participation basis at the end of a 20 year funding time horizon

The funding strategy criteria used by the fund are set out in Table 2. Further detail on the ESS and on the funding bases used by the fund are set out in Appendix E.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

The approach taken by the fund actuary helps the fund meet the aim of maintaining as stable a primary employer contribution rate as possible.

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2.2 The contribution rate calculation

Table 2: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			TABs*
Sub-type	Local authorities	Universities	Academies and Colleges	Non pass-through
SAB Tier	Tier 1	Tier 3	Tier 2	Tier 1
Funding basis	Ongoing	Least Risk	Ongoing	Ongoing
Target funding level	100%	100%	100%	100%
Minimum likelihood of success	75%	75%	75%	75%
Maximum time horizon	20 years	15 years	20 years	20 years
Primary rate approach**	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon, expressed as a percentage of pensionable pay.			
Secondary rate	The difference between the total contribution rate payable (determined as per 2.1) and the primary rate. Negative adjustments are expressed as a percentage of payroll and positive adjustments can be expressed as a percentage of payroll or monetary amounts (for mature closed employers).			
Stabilised contribution rate	Yes	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority		Negative secondary rates may be applied where cessation is expected in the short term

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Recognising covenant	Stabilisation parameters	Adjust likelihood of success	DfE Guarantee applies	Adjust likelihood of success
Phasing of contribution changes	None	3-years	3-years	3-years

* Employers participating in the fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority

** The Primary Rate for the whole fund is the weighted average (by payroll) of the individual employers' primary rates

The fund manages funding risks as part of the wider risk management framework, as documented in the fund's risk register. The funding-specific risks identified and managed by the fund are set out in [Appendix D – Risks and Controls](#).

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy.

Table 1: current stabilisation approach

Type of employer	London Borough of Barnet
Maximum contribution increase per year	+1% of pay
Maximum contribution decrease per year	-1% of pay

Stabilisation criteria and limits are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes.

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2.4 Links to investment strategy

The funding strategy sets out how money will be collected from employers to meet the fund’s obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority.

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won’t be able to pay benefits, so higher contributions would be required from employers.

The investment strategy is designed allowing for the funding position determined on an appropriate and prudent basis, with the objective of achieving the funding objective for each employer group of the specific time horizon.

The fund’s current strategic investment strategy as at 31 March 2025 is summarised in the table, with full details available at [link](#).

Asset class	Allocation
Global Equities (hedged)	13.8%
Global Equities (unhedged)	8.2%
EM equities (unhedged)	3.0%
Private Equity	5.0%
Property	6.0%
Infrastructure equity (unlisted)	8.0%
Credit	30.0%
Asset Backed Securities	6.0%
Multi Asset Credit (sub investment grade)	7.0%

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Private Lending	13.0%
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2.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see [Appendix A](#)).

2.6 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The fund's policy can be found in Appendix I The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.7 What is pooling?

The administering authority operates funding pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this.

With the exception of academies within a Multi Academy Trust (see below), employers in a pool maintain their individual funding positions, tracked by the Fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate.

Academies are pooled at MAT level. All academies within a MAT pay the same contribution rate and a common funding level across the MAT applies. If an academy leaves the Fund (or transfers from one MAT to another MAT within the Fund) all liabilities attributed to that academy, including deferred and pensioner liabilities in respect of former staff, will transfer from the MAT along with assets based on the funding level of the MAT.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified.

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2.10 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided.

Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, asset backed funding, security over an asset or a negative pledge.

2.11 Non cash funding

Should any employer wish to provide non-cash assets in lieu of contributions, the Fund will fully consider this request based on specialist advice and take steps to manage any conflict of interest that may arise.

2.12 Managing surpluses and deficits

The funding strategy is designed to ensure that all employers are at least fully funded on a prudent basis at the end of their own specific time horizon. The uncertain and volatile nature of pension scheme funding means that it is likely there will be times when employers are in surplus and times when employers are in deficit. The funding strategy recognises this by 1) including sufficient prudence to manage the effect of this over the time horizon, and 2) making changes to employer contribution rates to ensure the funding strategy objectives are met.

Fluctuations in funding positions are inevitable over the time horizon, due to market movements and changing asset values, which could lead to the emergent of deficits and surplus from time to time, and lead to changes in employer contribution rates to ensure

Table 2 sets out the Fund's approach to setting contribution rates for each employer group.

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3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

An employer may decide to award an additional pension to an employee if this is allowed in their discretions policy. If an employer awards an additional pension, the employer must pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

Under its discretions policy, an employer may also decide to waive actuarial reductions when an employee retires before their normal retirement age. This may mean that there is an additional cost to the employer, who will be asked to pay this additional contribution, which is called a "strain payment".

This is payable when the employee retires, and employers must also make strain payments as a single lump sum immediately.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, there will be a funding strain cost to the employer, which may be a large sum.

The administering authority does not offer any arrangement to mitigate this. Individual employers should make their own arrangements if they are concerned about the risk of unmanageable ill-health strain costs.

The ill health funding strain cost is not paid at the time of retirement. It is included in the actuarial calculation of the employers' contribution rate at the triennial valuation following the employee's retirement.

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4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets. Each employer's assets are calculated triennially by considering cashflows paid in/out and investment returns to give a new asset value.

If an employee moves one from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share. Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring (see section 5.2).

4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

Benefits are valued in line with the regulations in force at the time of the valuation, with an exception relating to the McCloud ruling. The benefits of members likely to be affected by the McCloud ruling have instead been valued in line with the expected regulations, reflecting an underpin as directed by DLUHC.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of

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contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body. New designated employers may also join the fund if they pass a designation to do so. On joining, the fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer, the existence of any guarantee, and the circumstances of joining. A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

5.2 New academies

New academies (including free schools) join the fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (i.e. members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. They won't be pooled with other employers unless the academy is part of a multi-academy trust (MAT) and the MAT requests that contributions are pooled. The new academies' contribution rate is based on the current funding strategy (set out in section 2) and the transferring membership.

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If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The fund's policies on academies may change based on updates to guidance from the Ministry for Housing, Communities and Local Government (MHCLG) or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

The Fund's policy on academy funding can be found in Appendix F.

5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

The Fund's default position is to require all new admission bodies to be set up with a pass-through arrangement, unless alternative arrangements for mitigating the risk to the Fund of a contractor's participation are put in place by the letting employer. The assessment of the adequacy of the alternative arrangements will be carried out by the Administering Authority in conjunction with the Fund Actuary.

The Fund's pass-through policy can be found in Appendix H.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, e.g. set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the fund.

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5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction. After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

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6 What happens when an employer leaves the fund?

6.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the fund leaves the scheme.

6.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in [Appendix E](#).

- a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in [Appendix E](#).
- b) Where there is a guarantor, the guarantee will be considered before the cessation valuation.
 - Where the guarantor is a guarantor of last resort (i.e. where the guarantee will cease to have affect after the cessation event and final settlement), this will have no effect on the cessation valuation.

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- If this isn't the case (i.e. if the guarantee continues to apply in respect of the former employer's obligations post cessation), cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.

- c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms. This is known as 'subsumption' of the assets and liabilities.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund.

The Fund's cessation policy can be found in Appendix G.

6.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The Fund's policy on exit credits is included in the cessation policy document, which can be found in Appendix G.

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6.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement
- if an exiting employer enters into a deferred debt agreement, it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The Fund's policy on employer flexibilities is included in the cessation policy document, which can be found in Appendix G.

6.5 What if an employer has no active members?

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA.

6.6 Partial cessations

The Fund will consider requests for a partial cessation on their merits and on a case-by-case basis.

6.7 Are bulk transfers allowed?

Cases will be looked at individually, but generally:

- the fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- the fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

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7 What are the statutory reporting requirements?

7.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report includes advice on whether the following aims are achieved:

- Compliance
- Consistency
- Solvency
- Long term cost efficiency

7.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

- (a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level
or
- (b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

7.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period

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3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

Standard information about the fund's approach to solvency of the pension fund and long-term cost efficiency will be provided in a uniform dashboard format in the valuation report to facilitate comparisons between funds.

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Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Ministry for Housing, Communities and Local Government (MHCLG) the purpose of the FSS is to document the processes the administering authority uses to:

- *establish a clear and transparent fund-specific strategy identifying how employers' pension liabilities are best met going forward*
- *support the desirability of maintaining as constant and stable primary contribution rate as possible, as defined in Regulation 62(5) of the LGPS Regulations 2013*
- *ensure that the regulatory requirements to set contributions to ensure the solvency and long-term cost efficiency of the fund are met.*
- *explain how the fund balances the interests of different employers.*
- *explain how the fund deals with conflicts of interest and references other policies/strategies.*

To prepare this FSS, the administering authority has used guidance jointly prepared by the Scheme Advisory Board (SAB), MHCLG, and by the Chartered Institute of Public Finance and Accountancy (CIPFA) dated January 2025.

The fund has a fiduciary duty to scheme members and obligations to employers to administer the scheme competently to keep employer contributions at an affordable level. The funding strategy statement sets out how the fund meets these responsibilities.

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with “*persons the authority considers appropriate*”. This should include ‘*meaningful dialogue... with council tax raising authorities and representatives of other participating employers*’.

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For the 31 March 2025 valuation a consultation period applied from 11 November 2025 to 31 December 2025. Each employer was provided with a copy of this document (in draft form) and the opportunity to speak to the Head of Pensions and Treasury and the Fund Actuary as required.

The Fund also hosted an employer forum, which was attended by the Fund Actuary and Officers to explain the document. During the consultation period employers received their individual results.

The fund also shared the draft FSS with the Department for Education and facilitated a meeting to discuss the changes made and the implications of the fund's funding policies on academy employers.

A3 How is the FSS published?

The FSS will be published [here](#).

A4 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

The documents will be accessible [here](#).

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Appendix B – Roles and responsibilities

B1 The administering authority is required to:

- 1 operate a pension fund
- 2 collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in LGPS Regulations
- 3 have an escalation policy in situations where employers fail to meet their obligations
- 4 pay from the pension fund the relevant entitlements as stipulated in LGPS Regulations
- 5 invest surplus monies in accordance with the relevant regulations
- 6 ensure that cash is available to meet liabilities as and when they fall due
- 7 ensure benefits paid to members are accurate and undertake timely and appropriate action to rectify any inaccurate benefit payments
- 8 take measures as set out in the regulations to safeguard the fund against the consequences of employer default
- 9 manage the valuation process in consultation with the fund's actuary
- 10 prepare and maintain an FSS and associated funding policies and SIP/ISS, after proper consultation with interested parties
- 11 monitor all aspects of the fund's performance and funding, and amend the FSS/ISS accordingly
- 12 establish a policy around exit payments and payment of exit credits/debits in relation to employer exits
- 13 effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and scheme employer
- 14 enable the local pension board to review the valuation and FSS review process and as set out in their terms of reference
- 15 support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice

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B2 Individual employers are required to:

- 1 Ensure staff who are eligible are contractually enrolled and deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations),
- 2 provide the fund with accurate data and understand that the quality of the data provided to the Fund will directly impact on the assessment of their liabilities and their contributions. In particular, any deficiencies in their data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality
- 3 pay all ongoing contributions, including employer contributions determined by the actuary and set out in the rates and adjustments certificate, promptly by the due date
- 4 develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- 5 make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain
- 6 notify the administering authority promptly of all changes to active membership that affect future funding
- 7 Pay any exit payments on ceasing participation in the fund timely provide the fund with accurate data and understand that the quality of the data provided to the fund will directly impact on the assessment of their liabilities and their contributions. In particular, any inaccuracies in data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality.

B3 The fund actuary should:

- 1 prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency and long-term cost efficiency based on the assumptions 26 set by the administering authority and having regard to the FSS and the LGPS Regulations
- 2 provide advice so the fund can set the necessary assumptions for the valuation
- 3 prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc

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- 4 provide advice and valuations to the fund so that it can make decisions on the exit of employers from the fund
- 5 provide advice to the fund on bonds or other forms of security against the financial effect on the fund of employer default
- 6 assist the fund in assessing whether employer contributions need to be revised between valuations as permitted or required by the regulations
- 7 ensure that the fund is aware of any professional guidance or other professional requirements that may be relevant in the role of advising the fund.
- 8 identify to the fund and manage any potential conflicts of interest that may arise in the delivery the contractual arrangements to the fund and other clients.

B4 Local Pension Boards (LPB):

Local Pension Boards have responsibility to assist the administering authority to secure compliance with the LGPS regulations, other legislation relating to the governance and administration of the LGPS, any requirements imposed by the Regulator in relation to the LGPS, and to ensure the effective and efficient governance and administration of the LGPS. It will be for each fund to determine the input into the development of the FSS (as appropriate within fund's own governance arrangements) however this may include:

- 1 Assist with the development and review the FSS
- 2 Review the compliance of scheme employers with their duties under the FSS, regulations and other relevant legislation
- 3 Assist with the development of and review communications in relation to the FSS.

B5 Employer guarantors

- 1 Department for Education - To pay cessation debts in the case of academy cessations (where the obligations are not being transferred to another MAT) and to consider using intervention powers if an academy is deemed to be in breach of the regulations.
- 2 Other bodies with a financial interest (outsourcing employers)

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B6 Other parties:

1. internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement
2. investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS
3. auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements
4. governance advisers may be asked to advise the administering authority on processes and working methods
5. internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures
6. the Ministry for Housing, Communities and Local Government, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

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Appendix C – Glossary

Actuarial certificates

A statement of the contributions payable by the employer (see also rates and adjustments certificate). The effective date is 12 months after the completion of the valuation.

Actuarial valuation

An investigation by an actuary, appointed by an Administering Authority into the costs of the scheme and the ability of the fund managed by that authority to meet its liabilities. This assesses the funding level and recommended employer contribution rates based on estimating the cost of pensions both in payment and those yet to be paid and comparing this to the value of the assets held in the Fund. Valuations take place every three years (triennial).

Administering Authority (referred to as ‘the fund’)

A body listed in Part 1 of Schedule 3 of the regulations who maintains a fund within the LGPS and a body with a statutory duty to manage and administer the LGPS and maintain a pension fund (the fund). Usually, but not restricted to being, a local authority.

Admission agreement

A written agreement which provides for a body to participate in the LGPS as a scheme employer

Assumptions

Forecasts of future experience which impact the costs of the scheme. For example, pay growth, longevity of pensioners, inflation, and investment returns,

Code of Practice

The Pensions Regulator’s General Code of Practice.

Debt spreading arrangement

The ability to spread an exit payment over a period of time

Deferred debt agreement

An agreement for an employer to continue to participate in the LGPS without any contributing scheme members

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Employer covenant

The extent of the employer's legal obligation and financial ability to support its pension scheme now and in the future.

Funding level

The funding level is the value of assets compared with the liabilities. It can be expressed as a ratio of the assets and liabilities (known as the funding level) or as the difference between the assets and liabilities (referred to as a surplus or deficit).

Fund valuation date

The effective date of the triennial fund valuation.

Guarantee / guarantor

A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the fund can consider the employer's covenant to be as strong as its guarantor's.

Local Pension Board

The board established to assist the Administering Authority as the Scheme Manager for each Fund.

Non-statutory guidance

Guidance which although it confers no statutory obligation on the parties named, they should nevertheless have regard to its contents

Notifiable events

Events which the employer should make the Administering Authority aware of

Past service liabilities

The cost of pensions already built up or in payment

Pension committee

A committee or sub-committee to which an administering authority has delegated its pension function

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Pensions Administration Strategy

A statement of the duties and responsibilities of scheme employers and Administering Authorities to ensure the effective management of the scheme

Primary and secondary employer contributions

Primary employer contributions meet the future costs of the scheme and Secondary employer contributions meet the costs already built up (adjusted to reflect the experience of each scheme employer). Contributions will therefore vary across scheme employers within a Fund.

Rates and adjustments certificate

A statement of the contributions payable by each scheme employer (see actuarial certificates)

Scheme Manager

A person or body responsible for managing or administering a pension scheme established under section 1 of the 2013 Act. In the case of the LGPS, each Fund has a Scheme Manager which is the Administering Authority.

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Appendix D – Risks and controls

D1 Managing risks

Some of the key risks facing the Fund together with controls employed to manage those risks are summarised in the tables below

D2 Financial risks

Risk	Control
Fund assets anticipated returns that underpin the valuation of liabilities and contribution rates over the long-term.	<p>Anticipate long-term returns on a prudent basis to reduce risk of under-performing.</p> <p>Use specialist advice to invest and diversify assets across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three-year valuations for all employers.</p> <p>Roll forward whole fund liabilities between valuations.</p>
Inappropriate long-term investment strategy.	<p>Consider overall investment strategy options as part of the funding strategy. Use asset liability modelling to measure outcomes and choose the option that provides the best balance.</p> <p>Operate various strategies to meet the needs of a diverse employer group.</p>
Active investment manager under-performs relative to benchmark.	Use quarterly investment monitoring to analyse market performance and active managers, relative to index benchmark.
Pay and price inflation is significantly more than anticipated.	<p>Focus valuation on real returns on assets, net of price and pay increases.</p> <p>Use inter-valuation monitoring to give early warning.</p>

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	Employers to be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Increased employer's contribution rate affects service delivery and admission/scheduled bodies.	Agree an explicit stabilisation mechanism, with other measures to limit sudden increases in contributions.
Orphaned employers create added fund costs.	Seek a cessation debt (or security/guarantor). Spread added costs among employers.
D3 Demographic risks	
Risk	Control
Pensioners live longer, increasing fund costs.	Set mortality assumptions with allowances for future increases in life expectancy. Use the fund actuary's experience and access to over 50 LGPS funds to identify changes in life expectancy that might affect the longevity assumptions early.
As the fund matures, the proportion of actively contributing employees declines relative to retired employees.	Monitor at each valuation, consider seeking monetary amounts rather than % of pay. Consider alternative investment strategies.
Deteriorating patterns of early retirements	Charge employers the extra cost of non ill-health retirements following each individual decision. Monitor employer ill-health retirement experience, with optional insurance.
Reductions in payroll cause insufficient deficit recovery payments.	Review contributions between valuations. This may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

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D4 Regulatory risks

Risk	Control
Changes to national pension requirements or HMRC rules.	<p>Consider all Government consultation papers and comment where appropriate.</p> <p>Monitor progress on the McCloud court case and consider an interim valuation or other action once more information is known.</p> <p>Build preferred solutions into valuations as required.</p>
Time, cost or reputational risks associated with any DLUHC intervention triggered by the Section 13 analysis (see Section 5).	Take advice from the actuary and consider the proposed valuation approach, relative to anticipated Section 13 analysis.
Changes to employer participation in LGPS funds leads to impacts on funding or investment strategies.	<p>Consider all Government consultation papers and comment where appropriate.</p> <p>Take advice from the fund actuary and amend strategy.</p>

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D5 Governance risks

Risk	Control
The administering authority is not aware of employer membership changes, for example a large fall in employee members, large number of retirements, or is not advised that an employer is closed to new entrants.	<p>The administering authority develops a close relationship with employing bodies and communicates required standards.</p> <p>The actuary may revise the rates and adjustments certificate to increase an employer’s contributions between valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, heeded, or proves to be insufficient in some way	<p>The administering authority maintains close contact with its advisers.</p> <p>Advice is delivered through formal meetings and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements like peer review.</p>
The administering authority fails to commission the actuary to carry out a termination valuation for an admission body leaving the fund.	<p>The administering authority requires employers with Best Value contractors to inform it of changes.</p> <p>CABs’ memberships are monitored and steps are taken if active membership decreases.</p>
An employer ceases to exist with insufficient funding or bonds.	<p>It’s normally too late to manage this risk if left to the time of departure. This risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body.</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p>

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Vetting prospective employers before admission.

Requiring a bond to protect the fund, where permitted.

Requiring a guarantor for new CABs.

Regularly reviewing bond or guarantor arrangements.

Reviewing contributions well ahead of cessation.

An employer ceases to exist, so an exit credit is payable.

The administering authority regularly monitors admission bodies coming up to cessation.

The administering authority invests in liquid assets so that exit credits can be paid.

D6 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as TABs and CABs, have no local tax-raising powers. The fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

Type of employer	Assessment	Monitoring
Local Authorities	Tax-raising or government backed, no individual assessment required	n/a
Colleges	Government-backed, covered by DfE guarantee in event of failure	Check that DfE guarantee continues, after regular scheduled DfE review
Universities	Detailed covenant assessment carried out by a specialist provider	Review funding metrics frequently and engage with employer as required.

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Academies	Government-backed, covered by DfE guarantee in event of MAT failure	Check that DfE guarantee continues, after regular scheduled DfE review
Admission bodies (CABs)	Bonds or Council guarantee required as a condition of participating in the Fund	Bonds are monitored at PFC meetings
Admission bodies (TABs)	Effective guarantee provided by the Awarding Authority	None

Any change in covenant over the inter-valuation period may lead to a contribution rate review

D7 Climate risk and TCFD reporting

The Fund has carried out climate scenario stress testing as part of their funding strategy considerations at the 2025 valuation.

The Fund has carried out climate scenario analysis incorporating both stress testing, and narrative-based scenario analysis for the local authority employers at the 2025 valuation. The narrative approach explores the complex and interrelated risks associated with climate change by defining a specific extreme, downside risk (in this instance a food shock) and constructing a narrative around potential policy and market response. This approach allows consideration to be given to the impact of sudden, severe downside risks in the short term, and potential immediate actions. Coupling the narrative approach with stress testing (to better understand the impact of possible climate scenarios) has allowed the Fund to incorporate real world climate scenarios that may occur and indicate the resilience of the Fund under these scenarios.

The results show that:

1. When considering climate scenario stress tests, the Fund appears to be generally resilient to different climate scenarios, with generally modest impacts versus the base case modelled
2. The results of the downside, narrative analysis suggest that the Fund is likely to be resilient in the face of some severe downside risk events (in comparison to the base case), but not all.

Climate scenario analysis helps assess risks and tests the resilience of current and long-term strategies under various scenarios. This helps to identify vulnerabilities across both assets and liabilities. Identification of these vulnerabilities can inform risk management processes (see figure 1), helping the

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Fund ensure appropriate controls and mitigations are in place. Scenario analysis therefore supports informed decision making and may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

Climate scenario analysis outputs can support the delivery of the following actions:



Figure 1.

This climate analysis was not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the local authority employers make up the vast majority of the fund's assets and liabilities, applying the climate analysis to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

D8 Gender Pension Gap reporting

The government published its consultation "Local Government Pension Scheme in England and Wales: Access and Fairness" in May 2025. One of the proposals as part of this consultation was to include gender pension gap reporting in the 2025 valuation report. Regulation around reporting will be laid down in March 2026 and as such, the Fund has reported on the gender pension gap in the 2025 valuation report (appendix 9).

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Reporting has been included for active members, pensioner members and by employer using the local government pension scheme funds account return (SF3) categorisation.

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Appendix E – Actuarial assumptions

The key outputs from an employer's funding valuation are its contribution rate requirement (see Section 2 for further details) and its funding level (see Section 4). For both calculations the fund actuary requires actuarial assumptions.

The fund typically reviews and sets the actuarial assumptions used for funding purposes as part of the triennial valuation. Those assumptions are then used until the next triennial valuation (updated for current market conditions where appropriate).

The fund has reviewed the actuarial assumptions used for funding purposes as part of the 2025 valuation. These are set out below.

E1 What are actuarial assumptions?

Actuarial assumptions are required to value the fund's liabilities because:

- There is uncertainty regarding both the timing and amount of the future benefit payments (the actual cost can't be known until the final payment is made). Therefore to estimate the cost of benefits earned to date and in the future, assumptions need to be made about the timing and amount of these future benefit payments.
- The assets allowed to an employer today are a known figure. However, the future investment return earned on those assets and future cashflows into the fund are uncertain. An assumption is needed about what those future investment returns will be.

There are two types of actuarial assumptions that are needed to perform an actuarial valuation: **financial assumptions** determine the expected amount of future benefit payments and the expected investment return on the assets held to meet those benefits, whilst **demographic assumptions** relate primarily to the expected timing of future benefit payments (i.e. when they are made and for how long).

All actuarial assumptions are set as best estimates of future experience with the exception of the discount rate assumption which is deliberately prudent to meet the regulatory requirement for a 'prudent' valuation.

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Any change in the assumptions will affect the value that is placed on future benefit payments ('liabilities'), but different assumptions don't affect the actual benefits the fund will pay in future.

E2 What funding bases are operated by the Fund?

A *funding basis* is the set of actuarial assumptions used to value an employer's (past and future service) liabilities. The fund operates two funding bases for funding valuations: the *ongoing participation basis* and the *low-risk exit basis*.

All actuarial assumptions are the same for both funding bases with the exception of the discount rate – see further details below.

E3 What financial assumptions are used by the fund?

Discount rate

The discount rate assumption is the average annual rate of future investment return assumed to be earned on an employer's assets from a given valuation date.

The fund uses a risk-based approach to setting the discount rate which allows for prevailing market conditions on the valuation date (see 'Further detail on the calculation of financial assumptions') and the Fund's investment strategy.

The discount rate is determined by the *prudence level*. Specifically, the discount rate is calculated to be:

The average annual level of future investment return that can be achieved on the Fund's assets over a 20 year period with a 75% likelihood.

The prudence level is the likelihood. The prudence levels used by the fund are as follows:

Funding basis	Prudence level
Ongoing participation	75%
Low-risk exit	N/A – see below

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The discount rate for the low risk exit basis is not set using risk-based methodology. The low-risk exit basis discount rate is set equal to the annualised yield on long dated conventional government bonds at the valuation date.

CPI inflation

The CPI inflation assumption is the average annual rate of future Consumer Price Index (CPI) inflation assumed to be observed from a given valuation date. This assumption is required because LGPS benefit increases (in deferment and in payment) and revaluation of CARE benefits are in line with CPI.

The fund uses a risk-based approach to setting the CPI inflation assumption which allows for prevailing market conditions on the valuation date (see 'Further detail on the calculation of financial assumptions').

The CPI inflation assumption is calculated to be:

The average annual level of future CPI inflation that will be observed over a 20 year period with a 50% likelihood

For the purpose of calculating a funding level at the 2025 valuation, a discount rate of 4.6% applies. This is based on a prudent estimate of investment returns, specifically, that there is an 75% likelihood that the fund's assets will future investment returns of 4.6% over the 20 years following the 2025 valuation date.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2025.

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Salary growth

The salary growth assumption is linked to the CPI inflation assumption via a fixed margin. The salary increases assumption is 1.0% above the CPI inflation assumption plus a promotional salary scale.

E4 Further detail on the calculation of financial assumptions

The ongoing participation basis discount rate and CPI inflation assumptions are calculated using a risk-based method.

To assess the likelihood associated with a given level of investment return or a given level of future inflation, the fund actuary uses Hymans Robertson's propriety economic scenario generator; the Economic Scenario Service (or ESS). The model uses statistical distributions to project a range of 5,000 different possible outcomes for the future behaviour of different asset classes and wider economic variables, such as inflation.

The table below shows the calibration of the model as at 31 March 2025 for some sample asset classes and economic variables. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years. Yields and inflation refer to the simulated yields at that time horizon.

		Annualised total returns						Economic variables					
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Developed World ex UK Equity	Property	Corp Medium A	Inflation (RPI)	17 year real yield (RPI)	Inflation (CPI)	17 year real yield (CPI)	17 year yield
5 years	16th %ile	3.5%	1.7%	2.2%	0.1%	-0.5%	0.2%	2.5%	2.2%	1.4%	1.2%	1.5%	4.8%
	50th %ile	4.3%	4.5%	4.3%	8.2%	8.2%	6.8%	4.9%	3.8%	2.4%	2.8%	2.4%	5.8%
	84th %ile	5.1%	7.5%	6.2%	16.4%	16.9%	14.1%	7.1%	5.3%	3.3%	4.3%	3.3%	7.1%
10 years	16th %ile	3.6%	2.7%	4.2%	2.5%	2.1%	2.3%	4.5%	1.3%	0.8%	0.8%	0.8%	3.9%
	50th %ile	4.6%	4.7%	5.4%	8.6%	8.5%	7.3%	6.0%	3.0%	2.1%	2.5%	2.1%	5.3%
	84th %ile	5.8%	6.9%	6.5%	14.6%	14.8%	12.7%	7.3%	4.6%	3.3%	4.1%	3.3%	7.1%
20 years	16th %ile	3.1%	2.9%	5.0%	3.8%	3.7%	3.5%	5.5%	1.0%	-0.5%	0.7%	-0.5%	1.6%
	50th %ile	4.5%	4.6%	5.8%	8.4%	8.3%	7.3%	6.5%	2.5%	1.2%	2.3%	1.3%	3.6%
	84th %ile	6.3%	6.4%	6.5%	12.9%	13.1%	11.3%	7.4%	4.2%	3.0%	3.9%	3.0%	6.2%
Volatility (Disp) (1 yr)		0.3%	6.7%	5.5%	16.3%	18.6%	15.2%	6.5%	1.4%		1.4%		

The ESS model is recalibrated monthly. The fund actuary uses the most recent calibration of the model (prior to the valuation date) to set financial assumptions for each funding valuation.

E4 What demographic assumptions are used by the Fund?

The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

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Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2024 version of the continuous mortality investigation (CMI) model published by the actuarial profession. The core parameters of the model apply, however, the starting point has been adjusted by +0.25% (for males and females) to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

Other demographic Assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependent partner at retirement or on earlier death. Dependant of a male is 3.5 years younger than him. Dependant of a female is 0.6 years older than her.
Commutation	60% of maximum under HMRC limits.
50:50 option	0% of members will choose the 50:50 option.

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Rates for demographic assumptions

Males

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
			FT & PT	FT	PT	FT	PT	FT
20	105	0.17	420.48	731.71	0.00	0.00	0.00	0.00
25	117	0.17		483.32	0.00	0.00	0.00	0.00
30	131	0.20	197.07	342.88	0.00	0.00	0.00	0.00
35	144	0.24	153.97	267.86	0.10	0.07	0.02	0.01
40	151	0.41	123.96	287.46	0.16	0.12	0.03	0.02
45	157	0.68	100.77		0.35	0.27	0.07	0.05
50	162	1.09	83.06	222.27	0.90	0.68	0.23	0.17
55	162	1.70	65.41	175.12	3.54	2.65	0.51	0.38
60	162	3.06	58.30	156.02	6.23	4.67	0.44	0.33
65	162	5.10	0.00	0.00	11.83	8.87	0.00	0.00

Females

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
			FT & PT	FT	PT	FT	PT	FT
20	105	0.17	363.88	975.61	0.00	0.00	0.00	0.00
25	117	0.17	240.35	644.43	0.00	0.00	0.00	0.00
30	131	0.20	170.54	457.17	0.00	0.00	0.00	0.00
35	144	0.24	133.24	357.15	0.10	0.07	0.02	0.01
40	150	0.41	107.28	287.46	0.16	0.12	0.03	0.02
45	157	0.68	100.77	269.95	0.35	0.27	0.07	0.05
50	162	1.09	83.06	222.27	0.90	0.68	0.23	0.17
55	162	1.70	65.41	175.12	3.54	2.65	0.51	0.38
60	162	3.06	58.30	156.02	6.23	4.67	0.44	0.33
65	162	5.10	0.00	0.00	11.83	8.87	0.00	0.00

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Appendix F – Academy funding policy

London Borough of Barnet Pension Fund

Policy on academy funding

Effective date of policy	1 st October 2025
Date approved	15 th September 2025
Next review	31 st March 2028

Introduction

The purpose of this policy is to set out the administering authority's funding principles relating to academies and Multi-Academy Trusts (MATs).

2.1 Aims and Objectives

The administering authority's objectives related to this policy are as follows:

- to state the approach for the treatment and valuation of academy liabilities and asset shares on conversion from a local maintained school, or when joining or leaving a MAT
- to state the approach for setting contribution rates for MATs
- to outline the responsibilities of academies seeking to consolidate
- to outline the responsibilities of academies when outsourcing

2.2 Background

As described in Section 5.2 of the Funding Strategy Statement (FSS), new academies join the fund on conversion from a local authority school or on creation (eg newly established academies, Free Schools, etc).

It is expected that new academies will join an existing MAT and so, upon joining the fund, academies will join an existing MAT pool for funding purposes. Where a new academy does not join an existing MAT pool, asset allocation and contribution rates will be determined by the Fund Actuary based on policy set out in the FSS.

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Funding policy relating to academies and MATs is largely at the fund's discretion, however guidance on how the fund will apply this discretion is set out within this policy.

2.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contains general guidance on Scheme employers' participation within the fund which may be relevant but is not specific to academies.

There is currently a written ministerial guarantee of academy LGPS liabilities, which was reviewed in 2022.

Academy guidance from the Department for Education (DfE) and the Ministry of Housing, Communities & Local Government (MHCLG) may also be relevant.

Statement of Principles

This Statement of Principles covers the fund's approach to funding academies and MATs. Each case will be treated on its own merits but in general:

- the fund will seek to apply a consistent approach to funding academies that achieves fairness to the ceding councils, MATs and individual academies.
- the fund's current approach is to treat all academies within a MAT as a single employer (operating as a funding pool where all pension risks are shared).
- academies must consult with the fund prior to carrying out any outsourcing activity.

Policies

2.4 Admission to the fund

Asset allocation on conversion

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund its deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%. The council's estimated funding level will be based on market conditions on the day before conversion.

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For new academies joining a MAT, assets calculated using the approach outlined in the previous paragraph will be transferred from the ceding council to the MAT.

Asset tracking

The Fund's policy is to pool assets (and liabilities) of all academies within a MAT. Once an academy joins a MAT, the individual asset share of that academy is merged into the MAT. All funding risks within the MAT pool are shared with other academies within the MAT pool. As such, only the MAT pool asset and liability share is tracked.

Contribution rate

New academy contribution rates are based on the current funding strategy (set out in section 2 of the FSS) and the transferring membership.

The default approach is that the MAT is treated as a 'full funding risks' pool meaning that all academies within the MAT pay the same contribution rate to the fund and all membership experience is shared across the MAT (i.e. full cross-subsidy exists).

If an academy is joining an existing MAT within the Fund then it will pay the MAT contribution rate.

If the new academy is not part of a MAT, or if the MAT does not already participate in the London Borough of Barnet Pension Fund, the new academy's contribution rate will be determined based on the current funding strategy (set out in section 2 of the FSS) and the transferring membership.

2.5 Academy transfers

Academy leaves a MAT and joins another MAT

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT. The individual asset share of that academy (determined based on the value of the transferring liabilities and the funding level of the MAT pool) will be transferred to the new MAT, noting that this may be more (or less) than 100% of the transferring liabilities.

The academy will pay the new MAT pool rate.

Merging of MATs

If two MATs merge during the period between formal valuations, all assets and liabilities will be combined to form a new MAT pool.

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The new merged MAT will pay the higher of the two certified individual MAT rates until the rates are reassessed at the next formal valuation (NB where one or both MATs are paying a monetary secondary contribution rate these will be converted to a % of pay for the purposes of determining the new merged contribution rate).

Alternatively, as set out in the fund's contribution review policy and per Regulation 64 A (1)(b) (iii) the MAT may request that a contribution review is carried out. The MAT would be liable for the costs of this review.

Standalone Academy joins a MAT

If an existing standalone academy joins a MAT, all active deferred and pensioner liabilities, along with the full asset share for the existing standalone academy, will transfer to the MAT.

The academy will pay the existing MAT pool rate.

2.6 Cessations of academies and multi-academy trusts

A cessation event will occur if a current academy or MAT ceases to exist as an entity or an employer in the fund.

The cessation treatment will depend on the circumstances:

- In the event of a MAT closure (or the closure of a standalone academy), where individual academies may be subsequently transferred to another MAT (or several MATs), a formal cessation valuation would be carried out. Assets transferred to any new MAT(s) would be set based on the value of the transferring active liabilities, but these may be adjusted to ensure that the legacy MAT deferred and pensioner liabilities are fully funded on the low-risk cessation basis.
- If an academy or MAT merges with another academy or MAT within the fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity. A formal cessation valuation would then be carried out in respect of the former entities (on the basis of their being nil assets and liabilities remaining).

If a single academy operating within a MAT ceases to exist, the legacy assets and liabilities of the academy will remain the responsibility of the MAT. This is not a cessation event (as defined in Regulation 64 of the LGPS Regulations), and a cessation valuation will not be required.

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2.7 Academy consolidations

If an academy or MAT is seeking to merge with another MAT outside of the fund they would need to seek approval from the secretary of state to consolidate their liabilities (and assets) into one LGPS fund.

The fund will provide the necessary administrative assistance to academies seeking to consolidate into another LGPS fund; however, the academy (or MAT) will be fully liable for all actuarial, professional and administrative costs.

Following the transfer of an academy or a MAT from another LGPS Fund, the Fund will assess if a revision to the contribution rate is required to allow for impact of the academy transfer.

2.8 Outsourcing

An academy (or MAT) may outsource or transfer a part of its services and workforce via an admission agreement to another organisation (usually a contractor). The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership.

The contractor will pay towards the LGPS benefits accrued by the transferring members for the duration of the contract, but ultimately the obligation to pay for these benefits will remain with the academy (or MAT) during and after the contract period.

It is critical for any academy (or MAT) considering any outsourcing to contact the fund initially to fully understand the administrative and funding implications.

It is the fund's preference for the contractor to participate under a pass-through basis of admission, where the contribution rate is set equal to the Primary Rate paid by the letting academy (or MAT). The fund's policy on pass-through is [here](#).

2.9 Accounting

Academies (or MATs) may choose to prepare combined FRS102 disclosures (eg for all academies within a MAT). Any pooling arrangements for accounting purposes may be independent of the funding arrangements (eg academies may be pooled for contribution or funding risks but prepare individual disclosures, or vice versa).

Related Policies

The fund's approach to admitting new academies into the fund is set out in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the fund?"

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- Contribution review policy
- Cessation policy

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Appendix G – Draft Cessations policy

London Borough of Barnet Pension Fund

Policy on cessations

Effective date of policy	1 st February 2026
Date approved	13 th January 2026
Next review	1 st April 2026

1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with circumstances where a scheme employer leaves the fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework (see below) and the fund's discretionary policies.

1.1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the fund.
- To provide information about how the fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the administering authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

1.2 Background

As described in Section 6 of the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the fund. On cessation from the fund, the administering authority will instruct the fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus

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exists. The fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the fund (Regulation 64) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer
- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the fund.
- Regulation 64 (2ZAB) – the administering authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
 - a) Notify its intention to make a determination to-
 - (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer
 - (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement
 - b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the administering authority and the exiting employer agree.
- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the administering authority must have regard to the following factors-
 - a) The extent to which there is an excess of assets in the fund relating to that employer in paragraph (2)(a)
 - b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
 - c) Any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
 - d) Any other relevant factors

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- Regulation 64 (2A) & (2B)– the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the fund within the period specified in the suspension notice.
- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining fund employers may be amended.
- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the administering authority may obtain a certificate from the fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.
- Regulation 64 (5) – following the payment of an exit payment to the fund, no further payments are due to the fund from the exiting employer.
- Regulation 64 (7A-7G) – the administering authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.
- Regulation 64B (1) – the administering authority may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, [Regulation 25A](#) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the Transitional Regulations”) give the fund the ability to levy a cessation debt on employers who have ceased participation in the fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the fund expects to deal with any such cases.

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the fund.

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2 Statement of Principles

This Statement of Principles covers the fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- it is the fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the fund.
- the fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per Section 6 of the FSS and Section 3.1 below). This would extinguish any liability to the fund by the exiting employer.
- the fund's key objective is to protect the interests of the fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.

3 Policies

On cessation, the administering authority will instruct the fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus as defined in Sections 6.3 and 6.4 of the FSS.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The fund's normal policy is that this cessation debt is paid in full in a single lump sum within 30 days of the employer being notified.

However, the fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see [3.2 Repayment flexibility on exit payments](#) below).

In circumstances where there is a surplus, the administering authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see [3.3 Exit credits](#) below).

3.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in Section 6.2 of the FSS and summarised below:

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Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authorities	Low risk basis ¹	Shared between other fund employers
Universities	Low risk basis	Shared between other fund employers
Academies and Colleges	Low risk basis	DfE guarantee expected to apply at the point of cessation – post cessation risk shared between other fund employers
Admission bodies (TABs) – non pass through	Ongoing basis ²	Letting authority
Admission bodies (CABs)	Low risk basis	Shared between other fund employers (if no guarantor exists)
Designating employers	Low risk basis	Shared between other fund employers (if no guarantor exists)

¹Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. machinery of Government changes), these cessation principles would apply.

²Where a TAB has taken, in the view of the administering authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation may be carried out on a low-risk basis.

Cessation of academies and multi-academy trusts (MATs)

A cessation event will occur if a current academy or MATs cease to exist as an entity or an employer in the fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.

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- If the MAT is split into more than one new or existing employers within the fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers. The actuary will use their professional judgement to determine an appropriate and fair methodology for this calculation in consultation with the administering authority.
- In all other circumstances, and following payment of any cessation debt, section 6.4 of the FSS would apply.

Further details are included in the fund's Academies Policy.

3.2 Repayment flexibility on exit payments

Consideration will be given as to which approach is the most appropriate in each case. A DDA may be appropriate if:

- the employer temporarily has no active members but expects it may return to active employer status in future. However, please note that if the plan is for active members to join within three years then a suspension notice may be more appropriate;
- the employer wants to minimise costs in comparison to a DSA by potentially benefitting from the upside of the pensions risks it would remain exposed to and therefore does not want to crystallise its debt by becoming an exiting employer. In this case the administering authority may be willing to defer crystallisation of the cessation debt for an appropriately period of time to be determined on a case by case basis, subject to the strength of the employer's covenant or security provided;
- initial affordability of the full exit payment is low but there is a prospect of increased affordability in the future, or the payment can only be afforded over a long period and therefore a DDA enables the position to be updated over time in light of changing funding positions; and/or
- the employer has a weak covenant but is not faced with imminent insolvency and must rely on future investment returns to fully or partially fund the exit payment. The administering authority may agree that doing so over an appropriate long period is better for the fund than risking immediate insolvency of the employer. However, the fund will also consider the potential impact of a deterioration in the employer's funding position.

On the other hand, it may be more appropriate to enter a DSA if:

- the employer does not intend to employ any more active members and therefore is not expected to resume active employer status;
- the employer wishes to crystallise its debt to the fund and therefore not be subject to any of the pension risks that could cause the amounts payable to the fund increasing (or decreasing) in future;

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- the employer has ample resources to make the payment within the near future but not immediately; and/or
- the employer is deemed to have a very weak covenant and so the administering authority will want to try to recoup as much of the exit payment as possible before the employer becomes insolvent.

The administering authority has the right to refuse a DSA or DDA request if they believe it is not in the best interests of the fund or the other participating employers, for example if entering a DSA or DDA increases the risk of a deficit falling to the other employers.

In considering each request for a DDA or DSA arrangement from an exiting employer the administering authority will take actuarial, covenant, legal and other advice as necessary. Proposed DDAs/DSAs will always be discussed with the employer, whether the arrangement was at the exiting employer's request or not.

Employers who may be party to either a DSA or a DDA are encouraged to discuss any potential impact on their accounting treatment with their auditors.

Managing of costs

On receiving a request, the administering authority will make the employer aware that any costs associated with setting up the DDA or DSA will be the responsibility of the Scheme employer, regardless of whether the administering authority agrees to enter into the agreement or not. This may include the cost of actuarial advice, legal advice, administrative costs and any additional advice required in relation to a covenant assessment or any other specialist adviser costs. If costs deviate from those initially anticipated the administering authority will keep the exiting employer up to date with any increases. The administering authority will provide information on how and when payments should be made.

Dispute resolutions

Whether a DDA or DSA arrangement is agreed or not is ultimately the decision of the administering authority. In the event of any dispute from an employer, the fund will seek to engage with the employer and a further 28 calendar days will be granted in which further discussions can take place to seek a resolution. If the dispute is not resolved in that period, the administering authority will make a final determination, which may be to confirm its original decision.

Deferred Debt Agreements (DDAs)

Under a DDA, the exiting employer becomes a deferred employer in the fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit.

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Information required from the employer

When making a request to enter a DDA, the employer should provide any relevant information to support their request e.g. in relation to their covenant/ability to continue to make payments to the fund on a continuing basis. Examples of information the employer may provide as evidence include the exiting employer's:

- most recent annual report and accounts
- latest management accounts
- financial forecasts
- details of position of other creditors

This is not an exhaustive list, and the administering authority may request further evidence. In particular, the administering authority may commission a covenant assessment if insufficient evidence is provided.

Assessing the proposal

The administering authority will aim to make a decision on whether to enter into a DDA within 28 calendar days of receiving a request, but this may vary to reflect specific circumstances, for example if the administering authority chooses to request a covenant assessment then the process may take longer.

To reach a decision the administering authority will consider:

- the size of the exiting employer's residual liabilities relative to the size of the fund;
- the impact on the continuity of the employer's business of being required to immediately pay the full exit payment
- the size of the exit payment relative to the costs associated with entering into a DDA;
- whether a debt spreading agreement or suspension notice would be more appropriate (see specific circumstances below);
- any information provided by the exiting employer to support their covenant strength, including any information on a guarantor or other form of security that the employer may be able to put forward to support their covenant;
- the results of any covenant review carried out.
- the exiting employer's accounts;
- the potential impact on the other employers in the fund; and
- the opinion of the fund's advisors.

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The administering authority is not obliged to accept an exiting employer's request for a DDA. For example, in the following circumstances the administering authority may consider a DDA not to be appropriate:

- the exiting employer could reasonably be expected to settle their exit payment in a single amount;
- it is known or likely that another active member will come into employment in the three years following the cessation date (in these cases a suspension notice would be considered more appropriate than a DDA); or
- the administering authority is concerned that where a DDA is entered, that the employer could not afford the impact of any negative experience which would result in an increase in the required secondary rate of contributions and an increase in the employer's overall deficit (in these cases a debt spreading agreement would be considered more appropriate as the payments are fixed throughout the term of the agreement).

Once all information has been considered the administering authority will consult with the exiting employer as required under the Regulations. If the administering authority does not wish to enter into a DDA they will explain to the exiting employer their reasoning and any alternatives (e.g. a debt spreading agreement, suspension notice or indeed require the exit payment in full). If the administering authority accepts the request to enter into a DDA, they will notify their legal advisers and Fund Actuary. If the administering authority has concerns about the level of risk arising due to the DDA, the administering authority may only accept the request subject to a one-off cash injection being made by the exiting employer or security being provided as an additional guarantee.

Setting up a DDA

Once agreed that a DDA is permitted, the terms of the DDA will be agreed between the administering authority and the exiting employer and will be set out in a formal legal agreement.

The administering authority and the exiting employer will negotiate an appropriate duration of the agreement which will consider the exiting employer's affordability and anticipated strength of covenant over the agreement period. If the exiting employer has sufficient reserves, the administering authority may require an immediate cash payment so that the DDA can start from an acceptably stronger funding position.

The duration of the DDA will not be expected to exceed the appropriate maximum deficit recovery period applying to the exiting employer set out in the FSS.

The Fund Actuary will calculate secondary contributions on an appropriate basis consistent with the determination of an exit payment for that employer as agreed with the administering authority, taking into

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account any cash payments made in advance. The secondary contributions will be reviewed at each actuarial valuation and certified as part of the fund's Rates and Adjustments Certificate until the termination of the agreement. Therefore payments throughout the agreement are not known in advance and may increase or decrease at each valuation to reflect changes in the employer's funding position.

The timeline from consultation with the exiting employer to entering into a DDA to the signing of the agreement will vary. Where possible all parties will aim to have the agreement signed within 3 calendar months, although there may be circumstances where timings may vary.

Once finalised, the employer will become a deferred employer in the fund and will have an obligation to pay their secondary contributions as certified by the Fund Actuary. The responsibilities of the deferred employer will be set out in the legal agreement and these will include the requirements to:

- comply with all the requirements on Scheme employers under the Regulations except the requirement to pay a primary rate of contributions but including any additional applicable costs, such as strain costs as a result of ill health retirements;
- adopt the relevant practices and procedures relating to the operation of the Scheme and the fund as set out in the administration strategy statement produced by the administering authority;
- comply with all applicable requirements of data protection law relating to the Scheme and with the provisions of any data-sharing protocol produced by the administering authority and provided to the deferred employer;
- promptly provide all such information that the administering authority may reasonably request in order to administer and manage the agreement; and
- give notice to the administering authority, of any actual or proposed change in its status, including take-over, change of control, reconstruction, amalgamation, insolvency, winding up, liquidation or receivership or a material change to its business or constitution.

The deferred employer should consult with their auditors about any impacts the DDA is expected to have on their accounting requirements.

Monitoring a DDA

A deferred debt agreement is subject to the ongoing approval of the administering authority. The administering authority reserves the right to terminate the agreement should they become concerned about a significant weakening in the deferred employer's covenant or a significant change in funding position. Conversely, if there was an improvement in the employer's circumstance then the administering authority and employer may agree to amend the terms of the agreement.

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The administering authority will monitor a DDA in the following ways:

- Changing funding position

The administering authority will request regular, and at least annual, updates of the deferred employer's funding position in order to review the progress of the DDA. The costs of the regular reviews will fall to the deferred employer as part of the terms for putting in place a DDA.

If the funding position changes by more than 10% (in absolute terms) from the previous review, then the administering authority may engage with the deferred employer to discuss a possible review of the DDA.

- Changing employer covenant

The administering authority monitors the level of covenant of its Scheme employers on an ongoing basis. Once an employer enters into a DDA, the administering authority will review the employer's covenant on a regular basis and details of this will be agreed for each DDA on an individual basis. If a deferred employer's covenant deteriorates, the administering authority may issue a notice to review and possibly terminate the agreements.

In addition, if a deferred employer requests an extension to the duration of the DDA the administering authority will consider an updated covenant review, amongst other factors, in assessing the proposal.

As a condition of entering into a DDA, the deferred employer is required to engage with the administering authority to assist with monitoring the level of covenant, for example by providing information requested by the administering authority in a timely manner.

- Timeliness of payments

The agreement will set the frequency by which payments of contributions are made and the administering authority will monitor if contributions are paid on time. Successive late or in particular missing payments will influence whether a notice is issued to the deferred employer to review and possibly terminate the agreement.

- Strength of guarantee or security

If a particular funding basis has been used by the Fund Actuary on the understanding that there is a particular security in place (e.g. another employer in the fund willing to underwrite the residual deferred and pensioner liabilities when the employer formally exits) then the administering authority will check there has been no change to the security at agreed regular intervals and as a minimum at each valuation cycle. The Fund Actuary may change the funding basis used to set the deferred employer's contributions depending on the strength of the security in place.

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- Notifiable events from the deferred employer

The deferred employer has a responsibility to make the administering authority aware of any changes in their ability to make payments or of a change in circumstance (e.g. a change of the guarantee in place mentioned above). Information should be shared with the administering authority at any time throughout the agreement to enable the administering authority to consider whether a review of the agreement should be carried out.

Terminating a DDA

As set out in Regulation 64(7E), the DDA terminates on the first of the following events:

- the deferred employer enrolls new active members;
- the duration of the agreement has elapsed;
- the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
- the administering authority serves a notice on the deferred employer that it is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially (or is likely to in the next 12 months); or
- a review of the funding position of the deferred employer is carried out at an updated calculation date and the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover what would be due if the deferred employer terminated at the updated calculation date; in other words the review reveals no deficit remains on the relevant calculation basis.

The deferred employer can also choose to terminate the DDA at any point. Notice should be given to the administering authority at the earliest opportunity. The Fund Actuary will calculate any outstanding contribution due from the employer.

Termination clauses will be included in the formal DDA legal agreement.

Process of termination

Unless the deferred employer has enrolled new active members and becomes an active employer again, once a termination of the DDA has been triggered, the deferred employer becomes an exiting employer under Regulation 64(1). The administering authority will obtain from the Fund Actuary an exit valuation calculated at the date the DDA terminates, and a revised rates and adjustments certificate setting out the exit payment due from the exiting employer or the excess of assets in the fund relating to the exiting employer (which would then be subject to the fund's exit credit policy).

Once the exit payment has been made in full, the exiting employer has no further obligation to the fund.

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If the termination has been triggered because the deferred employer has enrolled new active members, then the deferred employer becomes an active employer in the fund and an immediate exit payment may not be required; this may instead be incorporated in the revised rates and adjustments certificate that will be provided in respect of the active employer. The employer remains responsible for all previously accrued liabilities and the revised contributions required from the active employer will be calculated in line with the fund's FSS.

If the termination has been triggered because a review of the funding position of the deferred employer reveals that the secondary contributions paid to date by the deferred employer are sufficient to cover what would be due if the deferred employer terminated at the updated calculation date, then the deferred employer becomes an exiting employer and no further payments are required. The exiting employer has no further obligation to the fund. Where there is a surplus, an exit credit may be payable as determined by the administering authority and in line with the fund's exit credit policy.

Debt Spreading Agreements (DSAs)

Under a DSA, the cessation debt is crystallised and spread, with interest, over a period deemed reasonable by the administering authority following discussion with the exiting employer. The payments are fixed and are not reviewed at each actuarial valuation.

Information required from the employer

When making a request to enter a DSA, the exiting employer should provide any relevant information to support their request e.g. in relation to their covenant/ability to continue to make payments to the fund. Examples of information the exiting employer may provide as evidence include the employer's:

- most recent annual report and accounts
- latest management accounts
- financial forecasts
- details of position of other creditors

This is not an exhaustive list and the administering authority may request further evidence. In particular, the administering authority may commission a covenant assessment if insufficient evidence is provided.

Assessing the proposal

The administering authority will aim make a decision on whether to enter into a DSA within 28 calendar days of receiving a request, but this may vary to reflect specific circumstances, for example if the administering authority chooses to request a covenant assessment then the process may take longer.

To reach a decision the administering authority will consider:

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- the size of the exit payment relative to the exiting employer's business cashflow;
- the impact on the continuity of the employer's business of being required to immediately pay the full exit payment
- the size of the exit payment relative to the costs associated with entering into a DSA;
- whether a deferred debt agreement or suspension notice would be more appropriate;
- any information provided by the employer to support their covenant strength;
- the results of any covenant review carried out for the fund;
- the merit of any guarantees from another source and whether this is deemed sufficient to cover the outstanding payments should the exiting employer fail;
- the exiting employer's accounts;
- the potential impact on the other employers in the fund; and
- if appropriate, the opinion of the fund's advisors.

The administering authority is not obliged to accept an exiting employer's request for a DSA. For example, in the following circumstances the administering authority may consider a DSA not to be appropriate:

- the exiting employer could reasonably be expected to settle their exit payment in a single amount;
- there is doubt that the exiting employer can operate as a going concern during the spreading period; or
- the exiting employer cannot afford the required payments over the maximum spreading period or is requesting a spreading period longer than the maximum (see below).

The structure of the DSA is at the discretion of the administering authority having consulted with the exiting employer. The structure should protect all other employers in the fund whilst being achievable for the exiting employer. The structure of the DSA will take into consideration:

- the period that the payments will be spread. This is expected to be no more than 5 years. For longer periods it may be more appropriate to consider a deferred debt agreement, but the administering authority reserves the right to set whatever spreading period they deem appropriate provided they are satisfied with the exiting employer's ability to meet the payments over that period. The length of the spreading period will be set as to be as short as possible whilst remaining affordable for the exiting employer;

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- the interest rate applicable to the spread payments. In general, this will be set with reference to the discount rate in the exiting employer's cessation valuation report;
- the regularity of the payments and when they fall due;
- other costs payable; and
- the responsibilities of the exiting employer during the spreading period (for example, to make payments on time and to notify the administering authority of a change in circumstances that could affect their ability to make payments).

Once all information has been considered the administering authority will consult with the exiting employer as required under the Regulations. If the administering authority does not wish to accept the exiting employer's request to enter into a DSA they will explain their reasoning and any alternatives (e.g. a DDA, suspension notice or indeed require the exit payment in full). If the administering authority accepts the request to enter into a DSA, they will notify their legal advisers and Fund Actuary. If the administering authority has concerns about the level of risk arising due to the DSA, the administering authority may only accept the request subject to a one-off cash injection being made by the exiting employer or security being provided as an additional guarantee.

Setting up a DSA

The administering authority and the exiting employer will then negotiate the structure of the schedule of payments which takes into consideration the exiting employer's affordability and an appropriate period of the spreading.

The schedule of payments will be set out in a revised rates and adjustments certificate prepared by the Fund Actuary. There may be circumstances where timings may vary, however, in general the certificate will be prepared and provided to the exiting employer within 28 calendar days of agreeing the structure of the schedule of payments with the exiting employer.

Monitoring a DSA

Over the term that the cessation debt payment is spread, the administering authority will monitor the ability and willingness of the exiting employer to pay the schedule of contributions in the revised rates and adjustments certificate. While it is expected the schedule of payments would be fixed for the spreading period, the administering authority may alter the structure of the schedule at any time if there is a change in the exiting employer's circumstances or indeed, if the exiting employer wanted to pay the remaining balance. This will be agreed on a case by case basis and set out in a side agreement as required.

The administering authority will be in regular contact with the exiting employer until their obligations to the fund are removed when all payments set out in the schedule of payments are made.

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Examples of factors which will be monitored are set out below. Should any of these raise any concerns with the administering authority then the DSA may be reviewed and/or terminated.

Changing employer covenant

The administering authority will monitor the ability of the exiting employer to make their set payments by monitoring publicly available information such as credit ratings and/or company accounts as well as keeping in regular contact, at least annually, with the exiting employer to ensure that the payments can be met.

As a condition of entering into a DSA, the exiting employer is required to engage with the administering authority to assist with monitoring the level of covenant, for example by providing information requested by the administering authority in a timely manner.

Timeliness of payments

The DSA will set out the frequency by which payments will be made and how long for, and the administering authority will monitor if contributions are paid on time. Successive late or in particular missing payments would contribute towards further interest charges or the spreading agreement may be reviewed and/or terminated.

Strength of guarantee or security

If a particular schedule of payments has been agreed between the administering authority and the exiting employer on the understanding that there is a particular security in place (e.g. another employer in the fund willing to pay the remaining balance or a fixed charge on property that covers the remaining balance) then the administering authority will check there has been no change to the security regularly. The frequency of these reviews may reduce as the level of outstanding debt reduces. The administering authority may change the schedule of payments depending on the strength of the security in place. The exiting employer would be consulted prior to any changes.

Notifiable events from the exiting employer

The exiting employer has a responsibility to make the administering authority aware of any changes in their ability to make payments or of a change in circumstance that affects their ability to make payments. Information should be shared with the administering authority at any time throughout the agreement to enable the administering authority to consider whether a review of the agreement should be carried out.

Terminating a DSA

On paying all the payments set out in the revised rates and adjustments certificate the exiting employer will no longer have any obligations to the fund.

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In the event that the administering authority believes that the exiting employer may not be able to make any of their remaining payments, the administering authority reserves the right to review and/or terminate the DSA to ensure it is appropriate for the fund and does not adversely impact the other participating employers.

The exiting employer may also request to terminate the DSA early, in which case an immediate payment of the outstanding amounts set out in the rates and adjustment schedule should be paid.

Process of termination

In the event of a DSA being amended or terminated the administering authority will communicate this to the exiting employer along with reasons for the decision. Before the decision is made the administering authority will consult with the exiting employer about their change in circumstances.

If the DSA has to be terminated prematurely the administering authority will seek to obtain from the exiting employer the outstanding exit payments or look at alternative arrangements such as a deferred debt agreement.

Once the exit payment has been made in full, the exiting employer has no further obligation to the fund.

3.3 Exit credits

The administering authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the Local Government Pension Scheme (Amendment) Regulations 2020.

The administering authority may determine the amount of exit credit payable to be zero, however, in making a determination, the Administering Authority will take into account the following factors.

- a) the extent to which there is an excess of assets in the fund relating to the employer over and above the liabilities specified.
- b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.
- c) any representations to the Administering Authority made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.
- d) any other relevant factors

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Any exit credit payable will be reduced where the pension risks were wholly or partly carried by a party other than the exiting employer. For example, usually no exit credit will be payable to any employer who participates in the fund via a pass-through agreement. Other relevant factors may include:

- The exiting employer did not provide a bond or guarantee required under the admission agreement.
- There are unpaid employer or employee contributions.
- The exiting employer has not provided all the data required in accordance with the Administration Strategy Statement.

Admitted bodies

- i. For pre-14 May 2018 admissions, the administering authority will take into account the fact that original commercial contracts between admission bodies and letting authorities/guarantors could not have been drafted with regard to the May 2018 regulation changes that implemented exit credits retrospectively. Subject to any representations to the contrary, it will be assumed that the employer priced the contract accordingly and that no subsequent agreements covering the ownership of exit credits have been negotiated. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the fund.
- ii. For the purpose of determining exit credits payable following the cessation of an admission body who has participated in the fund as a result of having provided outsourced services, the exit credit payable will be calculated to reflect the proportion of the level of contributions paid by the contractor to the value of assets at the cessation date. This proportion will then be applied to the cessation surplus to determine the exit credit payable, prior to the further consideration being made by the Administering Authority in respect of other relevant factors.
- iii. No exit credit will normally be payable to any admission body who participates in the fund via the mandated pass through approach. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the fund via the "Letting employer retains pre-contract risks" route is subject to its risk sharing arrangement, as per paragraph iii) below.
- iv. The fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer

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and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the fund.

- v. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in iv), the fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the administering authority.
- vi. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- vii. If the admission agreement ends early, the fund will consider the reason for the early termination, and whether that should have any relevance on the fund's determination of the value of any exit credit payment. In these cases, the fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.
- viii. The decision of the fund is final in interpreting how any arrangement described under iv), vi), and vii) applies to the value of an exit credit payment.

Scheduled bodies and designating bodies

- i. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- ii. Where no formal guarantor or risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- iii. The decision of the fund is final in interpreting how any arrangement described under i) and ii) applies to the value of an exit credit payment.
- iv. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.

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General

- i. The fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.
- ii. The fund will also factor in if any contributions due or monies owed to the fund remain unpaid by the employer at the cessation date. If this is the case, the fund's default position will be to deduct these from any exit credit payment.
- iii. The fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the fund will discuss its approach to determining an exit credit with all affected parties. The decision of the fund in these instances is final.
- iv. If there is any doubt about the applicable LGPS benefit structure at the date of exit (e.g. McCloud remedy), the Fund actuary may include an estimate of the possible impact of any resulting benefit changes when calculating an employer's pension liabilities to determine the level of any exit credit.
- v. None of the above should be considered as fettering the fund's discretionary decision, instead it is an indication of how decisions are likely to be made. However, it is important to bear in mind that each and every potential exit credit case will be considered by the administering authority on its own merits, and the administering authority will make its discretionary decision on that basis.
- vi. The exiting employer will be advised of the exit credit amount due to be repaid and the fund will seek to make the payment within six months of the exit date. Meeting the six-month timeframe requires prompt notification of an employer's exit and for all data and relevant information to be provided as requested. The administering authority is unable to make any exit credit determination or payment until the fund has received all data and information required and if the delay caused by the fund requiring data means the 6-month date is passed, the parties will work constructively to enable a decision to be reached as soon as possible thereafter.
- vii. All exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

Disputes

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

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4 Practicalities and process

4.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the fund is likely to come to an end must:

- advise the fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the Administering Authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another fund employer, will they cease to accrue benefits within the fund, etc.).

4.2 Responsibilities of the Administering Authority

The administering authority will:

- gather information as required, including, but not limited to, the following:
 - details of the cessation - the reason the employer is leaving the fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
 - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
 - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another fund employer, guarantor, etc.).
- commission the fund actuary to carry out a cessation valuation under the appropriate regulation.

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- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

4.3 Responsibilities of the Fund Actuary

Following commission of a cessation valuation by the administering authority, the Fund Actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining fund employers, including any residual effects to be considered as part of triennial valuations.

5 Related Policies

The fund's approach to exiting employers is set out in the FSS, specifically "Section 6 – What happens when an employer leaves the fund?"

The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix E of the FSS.

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Appendix H – Pass through policy

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Policy on Admissions and pass-through

Effective date of policy	1 January 2024
Date approved	2 November 2023
Next review	1 January 2026

1 Introduction

The purpose of this policy is to set out the administering authority's approach to admitting new contractors into the fund on a pass-through basis. In addition, and subject to review on a case-by-case basis, the fund may be willing to apply its pass-through principles to other admission bodies where liabilities are covered by a guarantor within the fund.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To set out the fund's approach to admitting new contractors, including the calculation of contribution rates and how risks are shared under the pass-through arrangement.
- To outline the process for admitting new contractors into the fund.

1.2 Background

Employees outsourced from local authorities or from independent schools (generally academies, regulated by the Department for Education) must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007). This is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the Fund and making the requisite employer contributions.

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Pass-through is an arrangement whereby the letting authority (the local authority or the independent school) retains the main risks of fluctuations in the employer contribution rate during the life of the contract, and the risk that the employer's assets may be insufficient to meet the employees' pension benefits at the end of the contract.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Schedule 2 Part 3 sets out the entities eligible to join the fund as an admitted body, their key responsibilities as an admitted body and the requirements of the admission agreement.
- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and provides a definition of the primary rate.
- Regulation 64 - covers the requirements for a cessation valuation following the exit of a participating employer from the fund.

2 Statement of principles

This statement of principles covers the admission of new contractors to the fund on a pass-through basis. Each case will be treated on its own merits, but in general:

- In the absence of a preferred approach from the letting authority, pass-through is the default approach for the admission of all new contractors (with under 100 active members) to the fund from the effective date of this policy. For the avoidance of doubt, this would apply to contracts established by councils, and academy trusts (“the letting authority”).
- The contractor's pension contribution rate is set equal to the primary contribution rate payable by the letting authority. This will change from time to time in line with changes to the letting authority's primary contribution rate (i.e. following future actuarial valuations).
- The letting authority retains responsibility for variations in funding level, for instance due to investment performance, changes in market conditions, longevity, and salary experience under its pass-through arrangement, irrespective of the size of the outsourcing.
- The contractor will meet the cost of additional liabilities arising from (non-ill health) early retirements and augmentations.

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- Ill health experience will be pooled with the letting authority and no additional strain payments will be levied on the contractor in respect of ill health retirements. However, if the cause of the ill health is due to negligence of the contractor, the cost will be borne by the contractor.
- The contractor will not be required to obtain an indemnity bond.
- There will be no notional transfer of assets to the contractor within the Fund. This means that all assets and liabilities relating to the contractor's staff will remain the responsibility of the letting authority during the period of participation.
- At the end of the contract (or when there are no longer any active members participating in the fund, for whatever reason), the admission agreement will cease and no further payment will be required from the contractor (or the letting authority) to the fund, save for any outstanding regular contributions and/or invoices relating to the cost of early retirement strains and/or augmentations. Likewise, no "exit credit" payment will be required from the Fund to the contractor (or letting authority).
- The terms of the pass through agreement will be documented by way of the admission agreement between the administering authority, the letting authority, and the contractor.
- All existing admission agreements are unaffected by this policy. If a contract is re-let through an open tender, then the contribution rate may change, which should form part of any commercial negotiations between the contractor and the letting authority.

The principles outlined above are the default principles which will apply; however, the letting authority may request the specific details of a particular agreement to differ from the principles outlined above. However, it should be noted that the final decision rests with the administering authority.

The administering authority is not obliged to agree to a departure from the principles set out in this policy but will consider such requests and engage with the letting authority to reach agreement.

3 Policy and process

3.1 Compliance

Adherence to this policy is the responsibility of the relevant responsible service manager for any given outsourcing.

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The administering authority and the fund actuary must always be notified that an outsourcing has taken place, regardless of the number of members involved.

3.2 Contribution rates

The contribution rate payable by the contractor over the period of participation will be set equal to the primary rate payable by the letting authority from time to time. This means that the contractor's contribution rate will change once every three years, following the triennial actuarial valuation, but not between those times. Even then, this would always be in line with changes in the letting authority future service primary rate and not affected by the (generally more volatile) changes in past service funding level.

3.3 Risk sharing and cessation valuation

The letting authority will retain the risk of the contractor becoming insolvent during the period of admission and so no indemnity bond will be required from contractors participating in the Fund on a pass-through basis. The letting authority is effectively guaranteeing the contractor's participation in the fund.

A cessation valuation is required when a contractor no longer has any active members in the fund. This could be due to a contract coming to its natural end, insolvency of a contractor or the last active member leaving employment or opting out of the LGPS.

Where a pass-through arrangement is in place, the fund assets and liabilities associated with outsourced employees are retained by the letting authority. At the end of the admission, the cessation valuation will therefore record nil assets and liabilities for the ceasing employer and therefore that no cessation debt or exit credit is payable to or from the Fund.

The contractor will be required to pay any outstanding regular contributions and/or unpaid invoices relating to the cost of (non-ill health) early retirement strains and/or augmentations at the end of the contract.

However, in some circumstances, the winning bidder will be liable for additional pension costs that arise due to items over which it exerts control. The risk allocation is as follows:

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Risks	Letting authority	Contractor/ Admitted body
Surplus/deficit prior to the transfer date	✓	
Interest on surplus/deficit	✓	
Investment performance of assets held by the Fund	✓	
Changes to the discount rate that affect past service liabilities	✓	
Changes to the discount rate that affect future service accrual *		✓
Change in longevity assumptions that affect past service liabilities	✓	
Changes to longevity that affect future accrual *		✓
Price inflation affects past service liabilities	✓	
Price inflation / pension increases that affect future accrual *		✓
Excessive pay increases		✓
Exchange of pension for tax free cash	✓	
Ill health retirement experience	✓	
Strain costs attributable to granting early retirements (not due to ill health (e.g., redundancy, efficiency, waiving actuarial reductions on voluntary early retirements))		✓
Greater/lesser level of withdrawals	✓	
Rise in average age of contractor's employee membership	✓	
Changes to LGPS benefit package *		✓
Excess liabilities attributable to the contractor granting pay rises that exceed those assumed in the last formal actuarial valuation of the Fund	✓	
Award of additional pension or augmentation		✓

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** These elements would be picked up at the next triennial valuation, if the contractor is still active in the Fund at that time and would feed through into the letting authority's primary contribution rate and hence the contractor's contribution rate.*

3.4 Accounting valuations

Accounting for pensions costs is a responsibility for individual employers.

It is the administering authority's understanding that contractors may be able to account for such pass-through admissions on a defined contribution basis and therefore no formal FRS102 / IAS19 report may be required (contractors are effectively paying a fixed rate and are largely indemnified from the risks inherent in providing defined benefit pensions).

As the letting authority retains most of the pension fund risk relating to contractors, it is the administering authority's understanding that these liabilities (and assets) should be included in the letting authority's FRS102 / IAS19 disclosures.

The administering authority expect employers to seek approval to the treatment of pension costs from their auditor.

3.5 Application

Letting authorities may request terms which differ from those set out in this policy and any such request will be considered by the Administering authority.

All existing admission agreements (i.e. which commenced prior to the effective date of this policy) are unaffected by this policy.

3.6 Process

The procurement department at each letting authority that has responsibility for staff/service outsourcing must be advised of this policy. The process detailed below must be adhered to by the letting authority and (where applicable) the winning bidder.

- **Tender Notification** - The letting authority must publicise this pass-through policy as part of its tender process to bidders. This should confirm that the winning bidder will not be responsible for ensuring that the liabilities of outsourced employees are fully funded at the end of the contract, and that the winning bidder will only be responsible for paying contributions to the fund during the period of participation and meeting the cost of (non-ill health) early retirement strains, the cost of benefit augmentations and the cost of excessive pay increases (to be determined by the letting authority) (assuming the terms of this policy are adhered to). It should also advise the employer contribution rate as detailed in paragraph 3.2.

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- **Initial notification to Pension Team** – The letting authority must contact the administering authority when a tender (or re-tender) of an outsourcing contract is taking place and staff (or former staff) are impacted. The administering authority must be advised prior to the start of the tender and the letting authority must also confirm that the terms of this policy have been adhered to.
- **Confirmation of winning bidder** – The letting authority must immediately advise the administering authority of the winning bidder.
- **Request for winning bidder to become an admitted body** – The winning bidder (in combination with the letting authority), should request to the administering authority that it wishes to become an admitted body within the Fund.
- **Template admission agreement** – a template pass-through admission agreement will be used for admissions under this policy. It will set out all agreed points relating to employer contribution rate, employer funding responsibilities, and exit conditions. Only in exceptional circumstances, and only with the prior agreement of the Administering authority, will the wording within the template agreement be changed. All admission agreements must be reviewed (including any changes) by the administering authority and possibly its legal advisors.
- **Signed admission agreement** - Signing of the admission agreement can then take place between an appropriate representative of the winning bidder, the lead finance officer of the letting authority, and the administering authority. It is at this point the fund can start to receive contributions from the contractor and its employee members (backdated if necessary).
- **Admitted body status** – The letting authority will advise the contractor of its requirements and responsibilities within the Fund.

3.7 Costs

Contractors being admitted to the fund under a pass-through agreement will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the administering authority.

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4 Related Policies

The fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

The treatment of new employers joining the fund is set out in the in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the fund?"

The treatment of employers exiting the fund is set out in the in the Funding Strategy Statement, specifically "Section 6 – What happens when an employer leaves the fund?"

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Appendix I – Contribution reviews policy

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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

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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.

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.

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- 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.
- 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.

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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;
 - 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

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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.

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.

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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.

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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 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.

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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
- 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

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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.

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

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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.

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

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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.

	General approach
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.
	General approach
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

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	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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Appendix J – Prepayments policy

Policy on Prepayments

1 Introduction

The purpose of this policy is to set out the administering authority's approach to the prepayment of regular contributions due by participating employers.

It should be noted that this statement is not exhaustive, and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where prepayment of contributions will be permitted.
- To outline the key principles followed when calculating prepayment amounts.
- To outline the approach taken to assess the suitability of a prepayment as sufficient to meet the required contributions.

1.2 Background

It is common practice in the LGPS for employers to pre-pay regular contributions that were otherwise due to be paid to the fund in future. Employer contributions include the 'Primary Rate' – which is expressed as a percentage of payroll and reflects the employer's share of the cost of future service benefits, and the 'Secondary Rate' – which can be expressed as a percentage of payroll or a monetary amount and is an additional contribution designed to ensure that the total contributions payable by the Employer meet the funding objective.

On 22 March 2022, following a request from the LGPS Scheme Advisory Board, James Goudie (then) QC provided an [Opinion](#) on the legal status of prepayments. This Opinion found that the prepayment of employee and employer contributions was not illegal, subject to the basis for determining the prepayment amount being reasonable, proportionate and prudent. Further, the Opinion set out specific requirements around the presentation of prepayments.

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1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and specifies that primary contributions be expressed as a percentage of pensionable pay of active members.
- Regulation 62 - sets the requirement for an administering authority to prepare an R&A certificate.
- Regulation 9 – outlines the contribution rates payable by active members

2 Statement of principles

This statement of principles covers the prepayment of regular employer contributions to the fund. Each case will be treated on its own merits, but in general:

- The administering authority will permit the prepayment of employer contributions.
- Prepaying contributions expressed as a percentage of pay introduces the risk that the prepayment amount will be insufficient to meet the scheduled contribution (as a result of differences between expected and actual payroll). Prepaying contributions is therefore only permissible in the case of secure, long-term employers (e.g. local authorities).
- The prepayment of employee contributions is not permitted.
- A discount will be applied where employer contributions are prepaid, to reflect the investment return that is assumed to be generated by the fund over the period of prepayment.
- The fund actuary will determine the prepayment amount, which may require assumptions to be made about payroll over the period which the scheduled contribution is due.
- Where contributions expressed as a percentage of pay have been prepaid, the administering authority will carry out an annual check (and additional contributions may be required by the employer) to make sure that the actual amounts paid are sufficient to meet the contribution requirements set out in the R&A certificate.

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- Prepayment agreements will be documented by way of correspondence between the administering authority and the employer.
- The R&A certificate will be updated on an annual basis to reflect any prepayment agreements in place.
- Employers are responsible for ensuring that any prepayment agreement is treated appropriately when accounting for pensions costs.
- Prepayment agreements can cover any annual period of the R&A (or a consecutive number of annual periods).

3 Policy

3.1 Eligibility and periods covered

The fund is happy to consider requests from any employers to pre-pay certified primary and secondary contributions. However, in general, the prepayment of contributions is only appropriate for large, secure employers with stable active memberships. Employer contributions over the period of the existing R&A certificate (and, where a draft R&A certificate is being prepared following the triennial valuation, the draft R&A certificate) may be pre-paid by employers.

Prepayment of contributions due after the end of the existing (or draft) R&A certificate is not permitted, i.e. it would not be possible to prepay employer contributions due in the 2026/27 year until the results of the 2025 valuation are known and a draft R&A certificate covering the 2026 to 2029 period has been prepared.

3.2 Request and timing

Prior to making any prepayment, employers are required to inform the fund in writing of their wish to prepay employer contributions and to request details of the amount required by the fund to meet the scheduled future contribution.

This request should be received by the fund within 2 months of the start of the period for which the prepayment is in respect of.

The fund will then provide the employer with a note of the prepayment amount and the date by which this should be paid. In general, the prepayment should be made prior to the beginning of the appropriate R&A period.

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Failure to pay the prepayment amount by the specified date may lead to the need for an additional and immediate payment from the employer to ensure that the amount paid is sufficient to meet the certified amount set out in the R&A certificate.

3.3 Calculation

The fund actuary will determine the prepayment amount required.

Where the prepayment is in respect of contributions expressed as a percentage of pay:

- The fund actuary will determine the discounted value of scheduled contributions based on an estimate of payroll over the period (using the information available and assumptions set at the previous valuation) and the discount rate set for the purpose of the previous actuarial valuation (as specified in the previous actuarial valuation report).
- A sufficiency check will be required at the end of the period (see section 3.4)

Where the prepayment is in respect of contributions expressed as a monetary amount:

- The fund actuary will determine the discounted value of scheduled contributions based on the discount rate set for the purpose of the previous actuarial valuation (as specified in the previous actuarial valuation report).
- No sufficiency check will be required

Employers may pay more than the prepayment amount determined by the fund actuary.

No allowance for expected outsourcing of services and/or expected academy conversions will be made in the fund actuary's estimation of payroll for the prepayment period.

3.4 Sufficiency check

Where required, the fund actuary will carry out an **annual** assessment to check that sufficient contributions have been prepaid in respect of that period. Specifically, this will review the prepayment calculation based on actual payroll of active members over the period and this may lead to a top-up payment being required from the employer.

If this sufficiency check reveals that the prepayment amount was higher than that which would have been required based on actual payroll (i.e. if actual payroll over the period is less than was assumed), this will not lead to a refund of contributions to the employer.

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The sufficiency check will not compare the assumed investment return (i.e. the discount rate) with actual returns generated over the period. i.e. the check considers payroll only. Any shortfall arising due to actual investment returns being lower than that assumed will form part of the regular contribution assessment at the next valuation (as per the normal course of events).

The administering authority will notify the employer of any top-up amount payable following this annual sufficiency check and the date by which any top-up payment should be made.

3.5 Documentation and auditor approval

The fund will provide the employer with a note of the information used to determine the prepayment amount, including:

- Discount rate used in the calculations
- The estimate of payroll (where applicable)
- The effective date of the calculation (and the date by which payment should be made)
- The scheduled regular payments which the prepayment amount covers.

The prepayment agreement will be reflected in the R&A certificate as follows:

- The unadjusted employer regular contribution rate payable over the period of the certificate
- As a note to the contribution rate table, information relating to the prepayment amount and the discount applied, for each employer where a prepayment agreement exists.

The R&A certificate will be updated on an annual basis to reflect any prepayment agreements in place.

Employers should discuss the prepayment agreement with their auditor prior to making payment and agree the accounting treatment of this. The fund will not accept any responsibility for the accounting implications of any prepayment agreement.

3.6 Costs

Employers entering into a prepayment agreement will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the administering authority.

3.7 Risks

Employers enter into prepayment agreements on the expectation that the fund will be able to generate higher returns than they can over the prepayment period. Employers should be aware that future returns are not guaranteed, and it is possible that the returns generated on prepayment amounts may generate a

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lower return than that which can be generated by the employer. It is also possible that negative returns will lead to the value of any prepayment being less than that which was scheduled to be paid. In such circumstances, a top-up payment would not be required (as the sufficiency check only considers the effect of actual payroll being different to that assumed in the prepayment calculation), however the employer's asset share would be lower than it would have been if contributions were paid as scheduled. This would be considered by the fund actuary at the next triennial valuation (as per the normal course of events).

4 Related Policies

The fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".