PENSION RISKS: LONDON BOROUGH OF BARNET – AUGUST 2011

The London Borough of Barnet (the "Council") is considering outsourcing a large number of its workforce. This could have potentially significant implications for the London Borough of Barnet Pension Fund ("the Fund") and for the Barnet Council taxpayer.

PENSION RISKS

- Transferring a large number of staff out of the Council will **reduce the number of individuals contributing to the Fund**. Even where the contractor allows transferring staff to continue in the Fund, if new employees of the contractor are not allowed to join then the number of individuals will reduce over time.

- The impact of this will be **compounded by the timing of such a move which coincides with the mass opt-outs** expected as a result of Government's proposals to increase member contributions in the Local Government Pension Scheme ("LGPS") from April 2012. The number of opt-outs is not known for certain, but it is likely that some individuals will **simply not be able to afford to remain in the Fund**. This will be particularly true for younger members who have other financial commitments such as repayment of debts, saving for house deposits and bringing up young families.

- As a result of fewer contributors to the Fund, the net cash flow position of the Fund could reduce from around £22.9 million (positive) in 2010 to between £16.9 million and £25.0 million (negative) in 2012. Moving from **cash positive to cash negative** will mean that the Fund may need to **hold more liquid assets (such as cash)** in order to meet its expenditure. This will mean the **assets of the Fund will not perform as well**.

- A more cautious investment strategy will also mean **a higher value is placed on the liabilities** to reflect the lower return expected on the assets held to back those liabilities.

- The Fund had a deficit (i.e. the difference between the assets and the liabilities) of £190 million as at 31 March 2010, which was partly as a result of the wiping out of around £27 million of the Fund's assets following the **collapse of the Icelandic bank**. The **Council is currently paying around £10.7 million a year** to clear this deficit.

- The combined impact of the lower assets and higher liabilities will increase the deficit and could **almost double the Council's deficit contributions to £19.7 million a year** from 2013. This is ultimately a cost to the taxpayer.

- The main risks of granting a contractor Admitted Body Status of the Fund are as follows:
  - Admitted bodies are required to maintain a Bond to protect the Council if the contractor goes bust. A risk exists that the Bond is not big enough or doesn't exist and the **pension deficit falls back on the Council**.
  - A recent example is the **collapse of Connaught** in 2010 where it was discovered no such bond existed. The administrator said the Fund would receive "less than one penny" for every pound owed. The loss was estimated at **£1.5 million.**
  - If a contractor is granted Designated Body Status, it would **not have to secure a Bond**. If it subsequently failed, the pension deficit would fall back on the Council which again would **ultimately be a cost to the taxpayer**.

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