

Notice of Meeting

PENSIONS COMMITTEE

Wednesday, 16 December 2020 - 6:00 pm
Meeting to be held virtually

Members: Cllr Kashif Haroon (Chair), Cllr Foyzur Rahman (Deputy Chair), Cllr Rocky Gill, Cllr Amardeep Singh Jamu, Cllr Mick McCarthy, Cllr Dave Miles and Cllr Tony Ramsay

Independent Advisor: John Raisin

Observers: Dean Curtis, Steve Davies and Susan Parkin

Date of publication: 8 December 2020

Claire Symonds
Acting Chief Executive

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AGENDA

1. Apologies for Absence

2. Declaration of Members' Interests

In accordance with the Council's Constitution, Members are asked to declare any interest they may have in any matter which is to be considered at this meeting.

3. Minutes - To confirm as correct the minutes of the meeting held on 16 September 2020 (Pages 3 - 5)

4. Pension Fund Quarterly Monitoring - July-Sep 2020 (Pages 7 - 36)

5. Pension Fund Annual Report 2019/20 (Pages 37 - 197)

6. Administration and Governance Report (Pages 199 - 207)

7. Business Plan Update 2020 (Pages 209 - 212)

8. Business Plan 2021 (Pages 213 - 226)

9. Any other public items which the Chair decides are urgent

- 10. To consider whether it would be appropriate to pass a resolution to exclude the public and press from the remainder of the meeting due to the nature of the business to be transacted.**

Private Business

The public and press have a legal right to attend Council meetings except where business is confidential or certain other sensitive information is to be discussed. The item below contains commercially confidential information which is exempt under paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

- 11. Investment Strategy Review - Hymans Robertson (Investment Advisors) (Pages 227 - 262)**
- 12. Any other confidential or exempt items which the Chair decides are urgent**

Our Vision for Barking and Dagenham

ONE BOROUGH; ONE COMMUNITY; NO-ONE LEFT BEHIND

Our Priorities

Participation and Engagement

- To collaboratively build the foundations, platforms and networks that enable greater participation by:
 - Building capacity in and with the social sector to improve cross-sector collaboration
 - Developing opportunities to meaningfully participate across the Borough to improve individual agency and social networks
 - Facilitating democratic participation to create a more engaged, trusted and responsive democracy
- To design relational practices into the Council's activity and to focus that activity on the root causes of poverty and deprivation by:
 - Embedding our participatory principles across the Council's activity
 - Focusing our participatory activity on some of the root causes of poverty

Prevention, Independence and Resilience

- Working together with partners to deliver improved outcomes for children, families and adults
- Providing safe, innovative, strength-based and sustainable practice in all preventative and statutory services
- Every child gets the best start in life
- All children can attend and achieve in inclusive, good quality local schools
- More young people are supported to achieve success in adulthood through higher, further education and access to employment
- More children and young people in care find permanent, safe and stable homes
- All care leavers can access a good, enhanced local offer that meets their health, education, housing and employment needs
- Young people and vulnerable adults are safeguarded in the context of their families, peers, schools and communities

- Our children, young people, and their communities' benefit from a whole systems approach to tackling the impact of knife crime
- Zero tolerance to domestic abuse drives local action that tackles underlying causes, challenges perpetrators and empowers survivors
- All residents with a disability can access from birth, transition to, and in adulthood support that is seamless, personalised and enables them to thrive and contribute to their communities. Families with children who have Special Educational Needs or Disabilities (SEND) can access a good local offer in their communities that enables them independence and to live their lives to the full
- Children, young people and adults can better access social, emotional and mental wellbeing support - including loneliness reduction - in their communities
- All vulnerable adults are supported to access good quality, sustainable care that enables safety, independence, choice and control
- All vulnerable older people can access timely, purposeful integrated care in their communities that helps keep them safe and independent for longer, and in their own homes
- Effective use of public health interventions to reduce health inequalities

Inclusive Growth

- Homes: For local people and other working Londoners
- Jobs: A thriving and inclusive local economy
- Places: Aspirational and resilient places
- Environment: Becoming the green capital of the capital

Well Run Organisation

- Delivers value for money for the taxpayer
- Employs capable and values-driven staff, demonstrating excellent people management
- Enables democratic participation, works relationally and is transparent
- Puts the customer at the heart of what it does
- Is equipped and has the capability to deliver its vision

MINUTES OF PENSIONS COMMITTEE

Wednesday, 16 September 2020
(5:00 - 6:33 pm)

Members Present: Cllr Kashif Haroon (Chair), Cllr Foyzur Rahman (Deputy Chair), Cllr Rocky Gill, Cllr Amardeep Singh Jamu, Cllr Mick McCarthy, Cllr Dave Miles and Cllr Tony Ramsay

Observers Present: Steve Davies and Susan Parkin

Advisors Present: John Raisin, Nicholas Jellema and Stephen Jasinski

Apologies: Dean Curtis

8. Declaration of Members' Interests

There were no declarations of interest.

9. Minutes - 10 June 2020

The minutes of the meeting held on 10 June 2020 were confirmed as correct.

10. Pension Fund Quarterly Monitoring - April-June 2020

The report introduced by the Pension Fund Accountant provided information for employers, members of London Borough of Barking and Dagenham Pension Fund and other interested parties on how the Fund had performed during the quarter ("Q2") 1 April to 30 June 2020 as well as a verbal update on the unaudited performance of the Fund for the period 1 July to 15 September 2020.

The report summarised the effects of the global market during the periods and detailed the overall performance of the Pension Fund collectively as well as the performance of individual Fund Managers in Q2, and during both 2018 and 2019. The Fund's externally managed assets were valued at £1,132.03m, an increase of £127.03m from its value of £1,005.00m as at 31 March 2020. The cash value held by the Council at 30 June 2020 was £0.81m, giving a total Fund value of £1,132.84m. This total included a prepayment of £35.0m from the Council. Therefore, the net asset value as at 30 June 2020 after adjustment for the prepayment was £1,097.84m.

The report also updated the Committee on the Fund's Investment Strategy and performance. Consequently,

The Committee noted:

- (i) the progress on the strategy development within the Pension Fund,
- (ii) the daily value movements of the Fund's assets and liabilities outlined in Appendix 1 to the report,

- (iii) the quarterly performance of pension funds collectively and the performance of the fund managers individually,
- (iv) the update on the transition to CQS, and
- (v) the Independent Advisor's Market Background report 2019/20

11. Draft Pension Fund Accounts 2019/20

The report introduced the annual accounts of the LBBB Pension Fund for the year ended 31 March 2020 which have now been published on the Council's website. The accounts set out the financial position of the Pension Fund as at 31 March 2020 and as such act as the basis for understanding the financial well-being of the Pension Fund. In response to a question, the Council's Investment Fund Manager noted that because the accounts reflected the Pension Fund as of 31 March 2020, that this showed a drop in the Fund's value due to the market's position as a result of the Covid-19 pandemic.

The report included a summary of the key highlights of the Fund's performance over the year.

12. Administration and Governance Report

The Pension Fund Accountant updated the Committee on the latest administrative and governance issues relating to the Pension Fund, which covered the following areas:

- i. The Independent Advisor's update on Government Consultation to address Age Discrimination relating to 'transitional protection' in the LGPS (commonly referred to as "McCloud");
- ii. That the Fund is cash flow negative;
- iii. The Fund's three-year budget for the period 1 April 2020 to 31 March 2023, and
- iv. The London CIV Update

13. Business Plan Update 2020

The purpose of the report was to update the Committee on the progress of the Pension Fund's 2020/21 business plan. Appendix 1 provided a summary of the Business Plan actions from 1 January 2020 to 30 June 2020. A Strategic Asset Allocation Review was being carried out by the funds' Investment Advisors (Hymans Robertson) and a full business plan for 2020/21 was being drafted alongside this, setting out the key tasks for the Pensions Committee in respect to the Pension Fund issues for 2020/21.

The Committee noted the report and Business Plan.

14. Private Business

The Committee **agreed** to exclude the public and press for the remainder of the meeting by reason of the nature of the business to be discussed which included information exempt from publication by virtue of paragraph 3 of Part 1 of Schedule

12A to the Local Government Act 1972 (as amended).

15. Investment Strategy Review - Hymans Robertson (Investment Advisors)

At the last meeting in June 2020 the Committee received a presentation from Hymans Robertson outlining the planned approach to the review of the existing investment strategy which followed the 2019 actuarial valuation. The review has considered the scope to improve the chances of achieving the Fund's primary objective and the risk return profile of the Fund's investments, optimising diversification benefits where possible, whilst being mindful of contribution rate affordability and income requirements. The report and presentation from Hymans Robertson set out the conclusions of the review of the Fund's investment strategy and put forward a number of recommendations on the asset allocation and mandate structure for the Fund's investment arrangements, having regard to the Member responses to the Investment beliefs questionnaire which was discussed at the last meeting.

In the light of the presentation the Committee agreed to:

- i) adopt an alternative investment approach as outlined which has the highest success measures, and reduces the downside relative to the current strategy, and
- ii) accept in principle the changes proposed by Hymans Robertson as part of their structure review, subject to additional work by officers supported by advisors, with a view to a further report being presented in December outlining how the changes will be implemented.

The Council's Investment Fund Manager noted that training would be provided for Members, with an additional report scheduled to be presented at the December committee to explain further developments. Representatives from Hymans Robertson also stated that they would provide training to Members in due course.

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PENSIONS COMMITTEE

16 December 2020

Title: Pension Fund Quarterly Monitoring 2020/21 – July to September 2020	
Report of the Chief Operating Officer	
Open Report	For Information
Wards Affected: None	Key Decision: No
Report Author: Jesmine Anwar, Pension Fund Accountant	Contact Details: Tel: 020 8227 3763 E-mail: Jesmine.Anwar@lbbd.gov.uk
Accountable Director: Philip Gregory, Finance Director	
Accountable Strategic Leadership Director: Claire Symonds, Acting Chief Executive	
<p>Summary</p> <p>This report provides information for employers, members of London Borough of Barking and Dagenham Pension Fund and other interested parties on how the Fund has performed during the quarter 1 July to 30 September 2020.</p> <p>The report updates the Committee on the Fund’s investment strategy and its investment performance.</p>	
<p>Recommendation(s)</p> <p>The Pension Committee is recommended to note:</p> <ul style="list-style-type: none"> (i) the progress on the strategy development within the Pension Fund; (ii) the daily value movements of the Fund’s assets and liabilities outlined in Appendix 1; (iii) the quarterly performance of pension funds collectively and the performance of the fund managers individually; and (iv) the update on the transition to the Multi-Asset Credit Strategy 	
Reason(s)	

1. Introduction and Background

- 1.1 This report provides information for employers, members of London Borough of Barking and Dagenham Pension Fund (“the Fund”) and other interested parties on how the Fund has performed during the quarter 1 July to 30 September 2020 (“Q3”). The report updates the Committee on the Fund’s investment strategy and its investment performance. Appendix 2 provides a definition of terms used in this report. Appendix 3 sets out roles and responsibilities of the parties referred to in this report.
- 1.2 A verbal update on the unaudited performance of the Fund for the period 1 October to 15 December 2020 will be provided to Members at the Pension Committee.

2. Independent Advisors Market Background Q3 2020

- 2.1 The Quarter was positive for both Listed Equity and Bond markets. The MSCI World Index was up 8% (in \$ terms). Equity markets however saw clear diversification of performance across both geographies and sectors. The United States, Asia (excluding Japan) and Emerging Markets all saw returns around 9%-11% (in \$ terms). In contrast European Equities were flat (in Euro terms) and UK equities fell 3% (in £ terms). Growth stocks continued their long trend of outperforming Value stocks. The MSCI World Growth index returned 12% (in \$ terms) while the MSCI World Value Index returned 4%. While technology and distribution generally did well (assisted by the COVID-19 restrictions) it was not so positive for financial stocks (held back by potential loan defaults and long term low interest rate expectations) and in particular energy (hampered by lower fuel demand). High Government Bond prices continued while both Investment Grade and High Yield Corporate Credit had a clearly positive Quarter.
- 2.2 US Equities enjoyed another positive Quarter with the S&P 500 Index increasing by 9% over period June to September. The S&P 500 which had closed at 3,100 on 30 June closed at 3,363 on 30 September an increase of approaching 9%. The actions of the US Federal Reserve (continuing both ultra low interest rates and huge bond buying and announcing a more flexible approach to inflation targeting), some recovery in the US economy and the nature of the US stock market (with around a 25% weighting to just 5 huge technology orientated companies) all contributed to this continued rally.
- 2.3 The Federal Open Markets Committee (FOMC) of the US Federal Reserve which introduced extraordinary measures to support the economy and financial markets in March 2020 continued and indeed expanded this approach. The ultra low interest rate policy introduced in March was maintained at the July and September meetings when the FOMC maintained “the target range for the federal funds rate at 0 to ¼ percent.” On 27 August 2020 the FOMC announced an update to its strategic approach to monetary policy. Significantly the update included both changes that mean the Committee will be more tolerant going forward of inflation above 2% in order to compensate for previous long running low inflation and also that a low unemployment level will no longer be sufficient on its own to result in interest rate rises. These changes clearly indicated that the US interest rates could remain ultra low for a very long time.
- 2.4 The Press Statement issued after the September FOMC meeting clearly indicated that interest rates will be held at their current ultra low levels for a lengthy period. After referring to inflation “running persistently” below the 2% inflation target it was stated the Committee “expects” to maintain the present target range for the federal funds rate

of 0 to ¼% “until labor market conditions have reached levels consistent with the Committee’s assessment of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.” Forecasts issued after the September FOMC meeting indicated Federal Reserve policymakers expect no interest rate rises until at least the end of 2023.

- 2.5 While the July to September Quarter was clearly positive for US Equities volatility was also present. Having risen from 3,100 on 30 June to record closing high of 3,581 on 2 September the market then fell back to 3,237 on 23 September before recovering to 3,363 on 30 September. A particular feature of the performance, and potentially the heightened risks, of US markets is importance of just five stocks. – Apple, Alphabet, Amazon, Facebook and Microsoft. These companies have benefitted significantly in the COVID-19 environment. These companies, which numerically account for 1% of the companies in the Index have grown to account for around a quarter of the total S&P 500 Index by market capitalisation. However, as in early September, when they falter, even briefly, their sheer size potentially endangers the US equity market in general.
- 2.6 While US economic activity and employment were both still well below their levels at the beginning of 2020, they continued to recover somewhat during the July to September Quarter. The “advance” estimate from the US Bureau of Economic Analysis of 29 October 2020, indicated that “Real gross domestic product (GDP) increased at an annual rate of 33.1 percent in the third quarter of 2020. In the second quarter, real GDP decreased 31.4 percent.” However, output remained below pre COVID levels.
- 2.7 Unemployment which had been 3.5% in December 2019 reached 14.7% in April 2020. It had fallen to 10.2% by July and to 7.9% in September. This is however still the highest US unemployment rate since January 2013. Also, these headline unemployment statistics may be categorised as overoptimistic the reason being that some of those who initially lost their jobs in the US have now fallen out of the headline measure due to the Bureau of Labour Statistics labelling them either re-employed in part-time jobs or ineligible for work. Inflation as measured by the Personal Consumption Expenditures (PCE) index (the US Federal Reserve’s favoured measure) continued to run clearly below the Federal Reserve’s 2% target. The respected University of Michigan Survey of Consumers indicated, for September, the highest level of consumer confidence for 6 months. Notably however the September survey results commentary included the following narrative “the recent gains [in sentiment] are encouraging even though they were largely due to upper income households. Indeed, the data indicate that lower income households face continued income and job losses compared with the modest gains expected by upper income households. Also, lower income households more frequently anticipated real income declines. Without a renewed federal stimulus and enhanced unemployment payments, the income gap will widen.”
- 2.8 Despite a recovery in output in the July to September Quarter Eurozone GDP remained clearly below pre COVID levels. Eurozone equities were flat with, for example, the MSCI EMU Index rising by only 0.2% (in Euro terms). There were signs of clearly rising COVID rates in September. The European Central Bank made no changes to interest rate or bond buying policy at its July and September monetary policy meetings.

- 2.9 While Eurozone unemployment, aided by furlough schemes, worsened little during the Quarter (it was 7.8% in June and 8.3% in September) the inflation trend became even more worrying with the Eurozone experiencing deflation in both August and September 2020. In 2019 headline Eurozone inflation was well below the ECB policy objective of below, but close to 2% over the medium term. By December 2019 Eurozone headline inflation had climbed to 1.3%. By June 2020 it was however only 0.4% and in August the Eurozone slipped into deflation with headline inflation at minus 0.2%. In September it fell to minus 0.3%. Declines in energy prices and a stronger Euro were amongst the causes.
- 2.10 In July the European Union agreed to establish a 750 billion Euro Recovery Fund consisting of £390 billion Euros of grants and 360 billion Euros of loans to be allocated amongst European Union states. This amounts to a large fiscal stimulus package. The agreement is also a step towards further European Union integration. The funds will be borrowed by the European Commission and guaranteed by all European Union member states. Italy and Spain are both likely recipients of significant grant aid under this arrangement.
- 2.11 The UK equity market declined during the Quarter and again clearly lagged world markets in general. The FTSE All Share index was down around 3%. A lack of progress on post Brexit arrangements and increasing COVID cases in September were negative influences on performance. The oil and financial sectors, which account for about 30% of the Index, performed poorly. For example, BP and Shell which comprise about 5% of the entire Index lost approximately 25% of their value during the July to September Quarter.
- 2.12 While data released by the Office for National Statistics indicated increased GDP over the Quarter monthly GDP was very clearly lower than in February 2020, prior to the full impact of COVID-19. Consumer Price Inflation (CPI), which had been 1.5% in March 2020 remained well below the Bank of England target of 2%. CPI was 1.0% in July, 0.2% in August and 0.5% in September. The Bank of England made no changes to interest rates or its bond buying policy at either its August or September Monetary Policy Committee meetings.
- 2.13 Japanese Equities (as measured by the Nikkei 225 Index) gained 4% over the Quarter. Japanese Core CPI inflation which despite huge monetary stimulus since 2013 has remained well below the 2% target has, since, the onset of the COVID-19 crisis turned, worryingly, into deflation. Japanese Core CPI which was 0.8% in January 2020 was 0% in July, minus 0.4% in August and minus 0.3% in September. The Bank of Japan maintained its previous ultra accommodative monetary policy stance at its meetings in both July and September 2020. In late August Japan's longest serving Prime Minister Shinzo Abe announced his resignation due to ill health. This raised concerns regarding the future of Japanese economic policy given his creation of "Abenomics" which sought to revive the Japanese economy through the "three arrows" of ultra loose monetary policy, fiscal policy and structural/industrial reforms. However, his successor Yoshihide Suga quickly announced continuity which allayed investors concerns particularly given it is anticipated that there may be a greater emphasis on structural reform under Mr Suga.
- 2.14 Despite continuing US – China trade tensions Asia (excluding Japan) and Emerging Market equities enjoyed a clearly positive Quarter during July to September as they had in the previous (April to June) Quarter. Relative US dollar weakness was a positive

for Asian/Emerging Markets. China, Singapore, South Korea and China all have strong technology sectors which have benefitted from the COVID-19 environment. The MSCI AC Asia (excluding Japan) returned 11% (in \$ terms). The MSCI Emerging Markets Index returned 10% (in \$ terms).

- 2.15 The National Bureau of Statistics of China reported that the Chinese economy grew by 4.9% (year on year) in the third Quarter of 2020. This compared with growth of 3.2% reported for the previous Quarter and a fall of 6.8% for the January to March 2020 Quarter. Alone of the world's major economies China's economy was larger (by about 1%) than a year ago. A number of factors account for this not least relative success in controlling COVID-19 (aided by the commanding/controlling nature of the regime as well as experience), state support for industry and expanding exports including of technology, medical and protective equipment.
- 2.16 In an environment of Central Bank support and the ongoing COVID-19 crisis the low yields previously associated with the leading Government Bonds – US, UK and Germany continued in this Quarter although both the US and UK 10 Year yields rose slightly (and therefore prices fell slightly). The US 10 Year yield rose from 0.66 to 0.68 while the UK 10 Year Yield rose from 0.17 to 0.23. Corporate credit enjoyed another positive Quarter.
- 2.17 In conclusion the July to September Quarter was broadly positive for financial markets. Further economic recovery together with huge fiscal and in particular monetary stimulus all provided support to the markets. While continuing market buoyancy is favourable to investors including Pension Funds it should be remembered that the COVID-19 pandemic continued throughout the Quarter. Also, the financial wellbeing of many individuals, particularly the economically less well off, have been significantly adversely affected in the context of the COVID-19 pandemic.

3. Overall Fund Performance

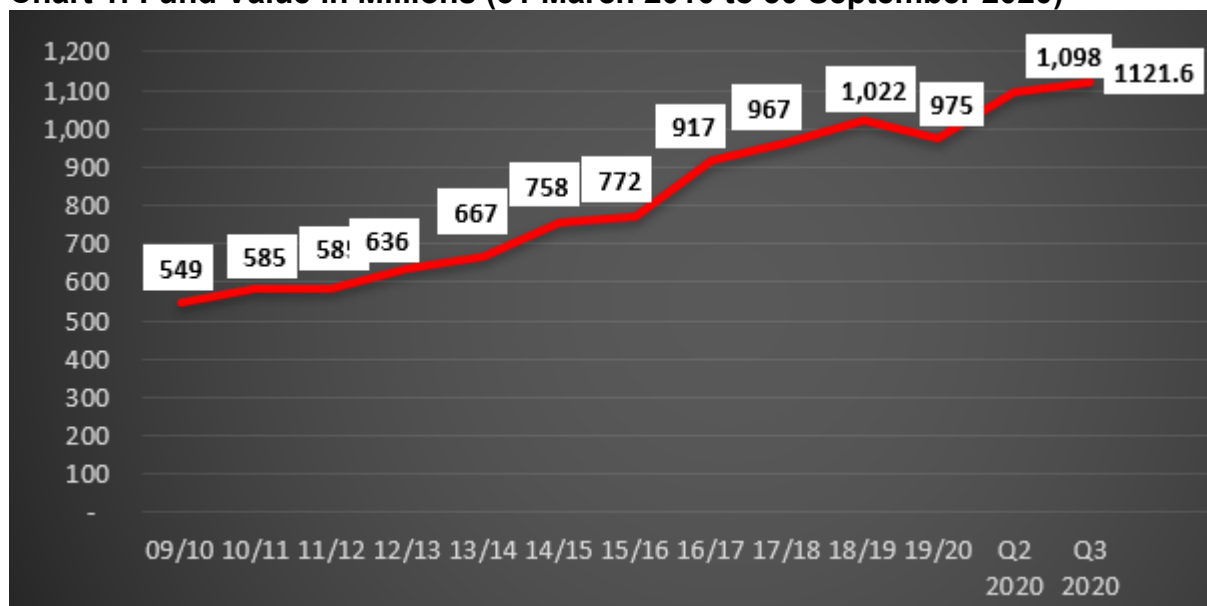
- 3.1 The Fund's externally managed assets closed Q3 valued at £1,163.27m, an increase of £31.24m from its value of £1,132.03m at 30 June 2020. The cash value held by the Council at 30 September 2020 was 0.44m, giving a total Fund value of £1,163.71m. The gross value of £1,163.71m includes a prepayment of £30.0m from the Council. The net asset value as at 30 September 2020, after adjusting for the prepayment and short term loan from the council was therefore £1,121.60m.
- 3.2 For Q3 the Fund returned 2.8%, net of fees, outperforming its benchmark by 0.3%. Over one year the Fund returned 5.8%, underperforming its benchmark by 0.3%. Over three years the Fund underperformed its benchmark by 1.8%, with a return of 5.3%. The Fund's returns are below:

Table 1: Fund's 2019, 2018, 2017 Quarterly and Yearly Returns

Year	2020			2019				2018	One Year	Two Years	Three Years	Five Years
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4				
Actual Return	2.8	12.3	(11.4)	2.2	1.4	3.3	5.8	(6.3)	5.8	5.0	5.3	8.9
Benchmark	2.5	9.6	(7.7)	1.7	2.4	3.5	5.6	(4.6)	6.1	6.5	7.1	9.6
Difference	0.3	2.7	(3.7)	0.5	(1.0)	(0.2)	0.2	(1.7)	(0.3)	(1.5)	(1.8)	(0.7)
PIRC Universe	1.8	11.3							(0.3)		4.4	8.8

3.3 Appendix 1 illustrates changes in the market value, the liability value, the Fund's deficit and the funding level from 31 March 2013 to 30 September 2020. Members are asked to note the significant changes in value and the movements in the Fund's funding level. Chart 1 below shows the Fund's value since 31 March 2010.

Chart 1: Fund Value in Millions (31 March 2010 to 30 September 2020)



■	RED- Fund underperformed by more than 3% against the benchmark
Δ	AMBER- Fund underperformed by less than 3% against the benchmark.
○	GREEN- Fund is achieving the benchmark return or better

3.4 The fund manager's performance has been scored using a quantitative analysis compared to the benchmark returns, defined below.

3.5 Table 2 highlights the Q3 2020 returns. Baillie Gifford returned 7.6% which was 4.1% above the benchmark. UBS Equities passive fund provided a return of 5.6% against a 5.6% benchmark. Kempens return was a disappointing -3.2% which was 6.4% below the benchmark of 3.2%. Most managers provided a positive return this quarter except for Kempen, Pyrford and UBS Bonds.

Table 2 – Fund Manager Q3 2020 Performance

Fund Manager	Actual	Benchmark	Variance	Ranking
	Returns (%)	Returns (%)	(%)	
Aberdeen Standard	5.1	1.0	4.1	○
Baillie Gifford	7.6	3.5	4.1	○
BlackRock	0.5	0.2	0.3	○
Hermes GPE	0.0	1.4	(1.4)	Δ
Kempen	(3.2)	3.2	(6.4)	■
Newton	3.5	1.0	2.5	○
Pyrford	(1.6)	1.8	(3.4)	■
Schroders	0.3	0.2	0.1	○
Mellon Corporation (Standish)	1.5	1.0	0.5	○

UBS Bonds	(1.2)	(1.2)	0.0	O
UBS Equities	5.6	5.6	0.0	O

- 3.6 Kempen has provided a disappointing return of -13.1% over one year which was 21.4% below the benchmark. Schroders and Blackrock, the funds property managers also returned -4.6% and -4.5% respectively. On the other hand, Baillie Gifford performed well returning 27.2% which was 18.3% above the benchmark. UBS Equities also performed well returning 10.8%.

Table 3 – Fund Manager Performance Over One Year

Fund Manager	Actual	Benchmark	Variance	Ranking
	Returns (%)	Returns (%)	(%)	
Aberdeen Standard	5.0	4.7	0.3	O
Baillie Gifford	27.2	8.9	18.3	O
BlackRock	(4.5)	(2.8)	(1.7)	Δ
Hermes GPE	4.6	5.8	(1.2)	Δ
Kempen	(13.1)	8.3	(21.4)	Δ
Prudential / M&G	1.8	4.7	(2.9)	Δ
Newton	3.8	4.4	(0.6)	Δ
Pyrford	0.4	6.0	(5.6)	Δ
Schroders	(4.6)	(2.8)	(1.8)	Δ
Mellon Corporation (Standish)	3.8	4.7	(0.9)	Δ
UBS Bonds	3.7	3.7	0.0	O
UBS Equities	10.8	10.8	0.0	O

- 3.7 Over two years, (table 4), most mandates are positive. Returns ranged from -4.2% for Kempen to 17.7% for Baillie Gifford. Absolute return and credit continue to struggle, underperforming their benchmarks but providing positive actual returns overall. Kempen also underperformed the benchmark by 12.8% with a return of negative 4.2%

Table 4 – Fund manager performance over two years

Fund Manager	Actual	Benchmark	Variance	Ranking
	Returns (%)	Returns (%)	(%)	
Aberdeen Standard	4.4	4.7	(0.3)	Δ
Baillie Gifford	17.7	8.8	8.9	O
BlackRock	(1.1)	(0.3)	(0.8)	Δ
Hermes GPE	3.2	5.7	(2.5)	Δ
Kempen	(4.2)	8.6	(12.8)	Δ
Prudential / M&G	2.9	4.7	(1.8)	Δ
Newton	6.1	4.5	1.6	O
Pyrford	1.6	6.6	(5.0)	Δ
Schroders	(2.5)	(0.3)	(2.2)	Δ
Mellon Corporation (Standish)	1.9	4.8	(2.9)	Δ
UBS Bonds	8.2	8.2	0.0	O

UBS Equities	7.8	7.8	0.0	0
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4. Asset Allocations and Benchmark

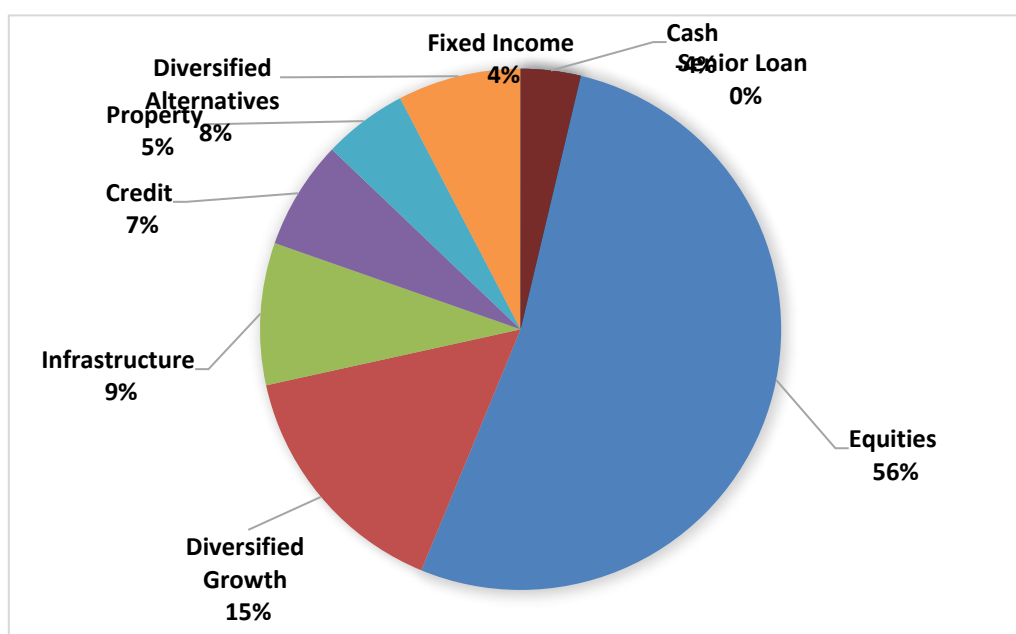
4.1 Table 5 below outlines the Fund's current actual asset allocation, asset value and benchmarks

Table 5: Fund Asset Allocation and Benchmarks as at 30 September 2020

Fund Manager	Asset (%)	Market Values (£000)	Benchmark
Aberdeen Standard	7.7%	85,888,358	3 Mth LIBOR + 4% per annum
Baillie Gifford	24.5%	275,139,453	MSCI AC World Index
BlackRock	3.3%	36,611,132	AREF/ IPD All Balanced
Hermes GPE	8.8%	98,893,410	Target yield 5.9% per annum
Kempen	13.1%	146,539,093	MSCI World NDR Index
Prudential / M&G	0.0%	670	3 Mth LIBOR + 4% per annum
Newton	6.7%	75,671,120	One-month LIBOR +4% per annum
Pyrford	9.4%	105,363,797	UK RPI +5% per annum
Schroders	2.0%	22,087,465	AREF/ IPD All Balanced
Mellon Corporation	5.9%	66,570,732	3 Mth LIBOR + 4% per annum
UBS Bonds	3.7%	41,533,465	FTSE UK Gilts All Stocks
UBS Equities	18.6%	208,820,285	FTSE AW Devel. Tracker (part hedged)
LCIV	0.0%	150,000	None
Cash	-3.7%	(41,658,339)	One-month LIBOR
Total Fund	100.00%	1,121,610,641	

Chart 2: Fund Allocation by Asset Class as at 30 September 2020

4.2 The percentage split by asset class is graphically shown in the pie chart below.



4.3 Overall the strategy is overweight equities, with equities at the top end of the range. Cash is underweight due to the pre-payment from the council. The current position compared to the strategic allocation is provided in table 6 below:

Table 6: Strategic Asset Allocation

Asset Class	Current Position	Strategic Allocation Target	Variance	Range
Equities	56.2%	48%	8.2%	45-53
Diversified Growth	15.3%	16%	-0.7%	16-20
Infrastructure	8.8%	9%	-0.2%	4-11
Credit	6.7%	8%	-1.3%	6-10
Property	5.2%	7%	-1.8%	6-9
Diversified Alternatives	7.7%	8%	-0.3%	6-10
Fixed Income	3.7%	4%	-0.3%	3-5
Cash	-3.7%	0%	-3.7%	0-1
Senior Loan	0.0%	0%	0.0%	0-1

5. Fund Manager Performance

5.1 Kempen

Kempen	2020			2019			2018	One Year	Two Years	Since Start 6/2/13	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1				Q4
£146.54m	%	%	%	%	%	%	%	%	%	%	
Actual Return	(3.2)	16.9	(27.9)	1.2	1.3	5.2	5.5	(7.3)	(13.1)	(4.2)	5.7
Benchmark	3.2	19.8	(15.7)	1.0	3.8	6.5	9.9	(11.3)	8.3	8.6	12.1
Difference	(6.4)	(2.9)	(12.2)	0.2	(2.5)	(1.3)	(4.4)	4.0	(21.4)	(12.8)	(6.4)

Reason for appointment

Kempen were appointed as one of the Fund's global equity managers, specialising in investing in less risky, high dividend paying companies which will provide the Fund with significant income. Kempen holds approximately 100 stocks of roughly equal weighting, with the portfolio rebalanced on a quarterly basis. During market rallies Kempen are likely to lag the benchmark.

Performance Review

The strategy underperformed its benchmark by 6.4% for the quarter and has underperformed its one-year benchmark by 21.4%. Kempen provided an annual return of -4.2% over two years which was 12.8% below the benchmark. It has also underperformed its benchmark since inception by 6.4%, although the return over this period is an annualised return of 5.7%.

Portfolio Rebalancing

Kempen sold two names during Q3: Komatsu and TSMC.

Japanese manufacturer of mining machinery and equipment Komatsu reported disappointing results and reduced its interim dividend. The valuation was no longer attractive so the holding was sold. The shares of Taiwanese technology company TSMC have performed very well this year, however the position was sold as the dividend yield fell below the threshold.

One new stock was added: Sanofi

French pharmaceutical company Sanofi was added as a new position to the portfolio. The shares are attractively valued and offer a growing dividend. The company is a slight beneficiary of the Covid-19 crisis and is working on a vaccine in joint venture with Glaxo (another holding in the portfolio).

5.2 Baillie Gifford

Baillie Gifford	2020			2019				2018	One Year	Two Years	Since Start 6/2/13
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£275.14m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	7.6	27.9	(13.2)	4.9	0.7	7.7	12.4	(12.5)	27.2	17.7	16.3
Benchmark	3.5	19.8	(15.9)	1.5	3.4	6.2	9.8	(10.6)	8.9	8.8	11.9
Difference	4.1	8.1	2.7	3.4	(2.7)	1.5	2.6	(1.9)	18.3	8.9	4.4

Reason for appointment

Baillie Gifford (BG) is a bottom-up, active investor, seeking to invest in companies that will enjoy sustainable competitive advantages in their industries and will grow earnings faster than the market average. BG's investment process aims to produce above average long-term performance by picking the best growth global stocks available by combining the specialised knowledge of BG's investment teams with the experience of their most senior investors. BG holds approximately 90-105 stocks.

Performance Review

For Q3 BG returned 7.6%, outperforming its benchmark by 4.1%. BG's one-year return was 27.2%, outperforming its benchmark by 18.3%. Since initial funding, the strategy has returned 16.3% p.a., outperforming its benchmark by 4.4%.

Portfolio performance has been driven by strong stock selection within communication services, consumer discretionary and energy. In the managers characterisation of stocks, most of this strong performance was driven by their "Rapid Growth" bucket, with the highest performing names being Tesla, Zillow Group and SEA. The manager had caused headline news in Q3 2020 regarding Tesla as their trimming of the stock down to 2.5% from 3.5% led to a brief panic in the market as other investors began to sell. The stock has now stabilised, and the manager continues to hold high conviction in the business as they believe performance has been underpinned by fundamentals.

Detractors to the portfolio were in industrials, Information technology (IT) and materials. The sub-fund is underweight compared to the benchmark in industrials, but poor stock selection contributed to the underperformance. Kirby group, which belongs in the managers 'Latent Growth' bucket, had a weak quarter as a result of questionable historical capital allocations. In IT, the Sub-fund's lack of exposure to Apple was a large contributor to underperformance.

The manager recognises Tesla as a volatile stock so the trimming of the holding will improve the risk statistics of the portfolio. There were additions to cyclical businesses such as BHP and Ryanair and made a new purchase of Rio Tinto. This ensures that the portfolio remains well diversified across the four different growth buckets. The manager is excited by the prospect of software businesses and have taken new Holdings in Cloudflare, Datadog, Snowflake and Adyen. These additions were made at the minimum holding size of 0.5% and all sit within the manager's

“Rapid Growth” bucket of the sub-fund which has now peaked at 45% of the portfolio.

5.3 UBS Equities

UBS Equities	2020			2019				2018	One Year	Two Years	Since Start 31/08/12
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£208.82m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	5.6	18.8	(19.3)	5.7	2.1	4.0	11.5	(12.8)	10.8	7.8	13.0
Benchmark	5.6	18.8	(19.3)	5.7	2.1	4.1	11.5	(12.9)	10.8	7.8	13.1
Difference	0.0	0.0	0.0	0.0	0.0	(0.1)	0.0	0.1	0.0	0.0	(0.1)

Reason for appointment

UBS are the Fund’s passive equity manager, helping reduce risk from underperforming equity managers and providing a cost-effective way of accessing the full range of developed market equity growth.

Performance

The fund returned 5.6% for Q3 and 10.8% over one year. Since funding in August 2012, the strategy has provided an annualised return of 13.0%.

Equities

After reaching fresh record highs at the start of September, global equities suffered a correction, with returns on the MSCI AC World index dropping by 3.2% on the month. Switzerland and Japan were the only major markets to post gains. MSCI Emerging markets (-1.6% total return) outperformed MSCI Developed markets (-3.4% total return) in September. After record outperformance of Growth over Value, the trend started to reverse in September.

Technology companies led the market to record highs in early September but has also led the pullback from the peak. The rally in US equities from the March lows has been notable for both its strength and its narrowness, centred on gains for a handful of mega-cap technology names. Supported by lower discount rates and exposure to a less mobile but more connected world, the megacap tech stocks - Facebook, Apple, Amazon, Microsoft, Netflix, and Alphabet, Google's parent company - have rallied by an average of 42% in USD terms this year. At the peak on 2 September, optimism over an earlier than-expected vaccine sparked rotation out of tech, as it suggested potential for a faster economic recovery, prompting flows into more cyclically exposed sectors, such as Value.

5.4 UBS Bonds

UBS Bonds	2020			2019				2018	One Year	Two Years	Since Start 5/7/2013
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£41.53m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(1.2)	2.5	6.3	(3.9)	6.2	1.4	3.4	1.9	3.7	8.2	5.5
Benchmark	(1.2)	2.5	6.3	(3.9)	6.2	1.3	3.4	1.9	3.7	8.2	5.5
Difference	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0

Reason for appointment

UBS were appointed as the Fund's passive bond manager to allow the Fund to hold a small allocation (4%) of UK fixed income government bonds.

Performance

The return for Q3 was -1.2%, with a one-year return of 3.7% and a two-year return of 8.2%.

Returns on US and EUR government bonds were both positive in September as yields declined due to rising concerns about a second wave of COVID-19 infections in Europe, US elections and the ongoing negotiations between Democrats and Republicans about a stimulus fiscal package. As volatility rose, credit spreads widened. Spreads for US high yield, USD-denominated emerging market sovereign bonds, and Asia high yields bonds increased by 41, 12 and 51 basis points respectively.

5.5 M&G / Prudential UK

M&G / Prudential	2020			2019				2018	One Year	Two Years	Since Start 31/5/2010
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£0.00m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	0.0	0.0	1.7	0.0	1.7	0.0	1.0	1.2	3.5	4.0	4.5
Benchmark	0.0	0.0	1.2	1.2	1.2	1.0	1.2	1.2	4.6	4.6	2.9
Difference	0.0	0.0	0.5	(1.2)	0.5	(1.0)	(0.2)	0.0	(1.1)	(0.6)	1.6

Reason for appointment

This investment seeks to maximise returns using a prudent investment management approach with a target return of Libor +4% (net of fees).

Performance and Loan Security

The strategy provided a return of 4.5% per year, with an outperformance against the benchmark of 2.9% since inception. The strategies holding has reduced in size to nil, with all of the loans repaid. The weighted average credit rating is BB+ with an average life of 1.3 years.

This investment completed the sale of its last senior loan and is now closed.

5.6 Schroders Indirect Real Estate (SIRE)

Schroders	2020			2019				2018	One Year	Two Years	Since Start 6/8/2010
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£22.09m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	0.3	(2.0)	(3.9)	1.0	0.3	0.1	(1.1)	0.3	(4.6)	(2.5)	5.1
Benchmark	0.2	(2.0)	(1.3)	0.3	0.4	0.6	0.3	0.9	(2.8)	(0.3)	6.5
Difference	0.1	0.0	(2.6)	0.7	(0.1)	(0.5)	(1.4)	(0.6)	(1.8)	(2.2)	(1.4)

Reason for appointment

Schroders is a Fund of Fund manager appointed to manage a part of the Fund's property holdings. The mandate provides the Fund with exposure to 210 underlying funds, with a total exposure to 1,500 highly diversified UK commercial properties.

Q3 2020 Performance and Investment Update

The fund generated a return in Q3 of 0.3% with a one-year return of negative 4.6% and a two-year return of negative 2.5%.

The best performing sectors continue to be those more resilient to the virus - prime industrials, convenience retail e.g. supermarkets and alternative sectors driven by structural demand and demographic trends.

SIRE's portfolio structure maintains an overweight position relative to its benchmark to the industrial and alternative sectors and an underweight position to the retail sector. SIRE is holding a short-term overweight position to cash reflecting a number of forthcoming redemptions due for payment on the redemption date. The weak economic environment has meant that holding higher than average levels of cash has been accretive to performance over the last 12 months.

No purchases were made in Q3 2020. A sale of £3.9 million was made in Industrial Property Investment Fund at a small discount to the net asset value.

5.7 BlackRock

BlackRock	2020			2019				2018	One Year	Two Years	Since Start 1/1/2013
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£36.61m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	0.5	(2.9)	(2.8)	0.6	0.7	0.5	0.1	1.0	(4.5)	(1.1)	0.4
Benchmark	0.2	(2.0)	(1.3)	0.3	0.4	0.6	0.3	0.9	(2.8)	(0.3)	3.6
Difference	0.3	(0.9)	(1.5)	0.3	0.3	(0.1)	(0.2)	0.1	(1.7)	(0.8)	(3.2)

Reason for appointment

In December 2012, a sizable portion of the Fund's holdings with Reef were transferred to BlackRock (BR). The transfer to BR provides the Fund with access to a greater, more diversified range of property holdings within the UK.

Q3 2020 Performance and Investment Update

BR returned 0.5% for the quarter against the benchmark of 0.2%. It returned -4.5% over one year against its benchmark's return of -2.8%.

During the third quarter of the year, the Fund completed two disposals, totalling £46.6 million; there were no acquisitions in Q3 2020. The Fund disposed of Clifton Down Shopping Centre, a supermarket-anchored shopping centre in Bristol. The sale represented a continuation of the strategy to down weight the Fund's retail exposure. The second disposal was of Bowthorpe Industrial Estate, a multi-let industrial estate comprising 66 units in Norwich. It was sold for a net price of £19.4 million. The sale proceeds will be used to invest and drive value in the Fund's existing assets and meet investor redemption requirements.

5.8 Hermes

Hermes	2020			2019				2018	One Year	Two Years	Since Start 9/11/2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£98.89m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	0.0	0.9	3.9	(0.2)	1.2	1.0	(1.5)	1.1	4.6	3.2	8.4
Benchmark	1.4	1.4	1.5	1.4	1.5	1.5	1.4	1.4	5.8	5.7	5.9
Difference	(1.4)	(0.5)	2.4	(1.6)	(0.3)	(0.5)	(2.9)	(0.3)	(1.2)	(2.5)	2.5

Reason for appointment

Hermes were appointed as the Fund's infrastructure manager to diversify the Fund away from index linked fixed income. The investment is in the Hermes Infrastructure Fund I (HIF I) and has a five-year investment period which ended on 30th April 2020 and a base term of 18 years. In March 2015 Members agreed to increase the Fund's allocation to Hermes to 10%.

Performance

Hermes returned 0.0% in Q3 underperforming the benchmark by 1.4%. As at 30 September 2020, the strategy reported a one-year positive return of 4.6%, underperforming its benchmark by 1.2%. Since inception the strategy has provided a good, annualised return of 8.4%, outperforming its benchmark by 2.5%.

Portfolio review

In the Value-Added portfolio, Eurostar's volumes were already down significantly following quarantine measures in August and have reduced further following recent lockdowns in England and France. This has accelerated an extensive business review focusing on cash flow management, rightsizing the business to meet expected demand, whilst also reducing fixed costs.

Scandlines has experienced further reductions in leisure and shopping volumes since the emergence of a second wave in Denmark and Germany from mid-September. This trend has accelerated following new restrictions imposed by governments in October. Cargo volumes remain robust, ensuring the business remains profitable, which together with proportionate cost measures being undertaken and a strong rebound in trading over the summer months, should ensure that liquidity and covenant headroom are sufficient in the near term.

In the Core portfolio, Iridium Hermes Roads ('IHR') experienced a strong rebound in traffic volumes over the summer months, trending in line with 2019 levels. However, regional restrictions imposed in Spain in the second half of October have caused traffic volumes to fall by c.25%. Whilst significant, this compares to a c75% reduction in the first lock-down. There remains sufficient liquidity within the business and with only one operating road requiring a covenant waiver in the near term, which is underway.

Associated British Ports continues to trade below budget due to weaker than expected volumes across most sectors. However, the latest lock-down in itself is not expected to further impact ABP in the near term and liquidity and covenant headroom levels remain sufficient for the time being.

5.9 Aberdeen Standard Asset Management

Aberdeen Standard	2020			2019				2018	One Year	Two Years	Since Start 15/9/2014
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£85.89m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	5.1	(0.6)	0.7	(0.2)	1.9	2.3	0.6	(0.8)	5.0	4.4	4.1
Benchmark	1.0	1.3	1.2	1.2	1.2	1.2	1.2	1.1	4.7	4.7	4.7
Difference	4.1	(1.9)	(0.5)	(1.4)	0.7	1.1	(0.6)	(1.9)	0.3	(0.3)	(0.6)

Reason for appointment

As part of the Fund's diversification from equities, Members agreed to tender for a Diversified Alternatives Mandate. Aberdeen Standard Asset Management (ASAM) were appointed to build and maintain a portfolio of Hedge Funds (HF) and Private Equity (PE). All positions held within the portfolio are hedged back to Sterling.

Since being appointed ASAM have built a portfolio of HFs and PEs, which offer a balanced return not dependent on traditional asset class returns. In the case of PE, the intention is to be able to extract an illiquidity premium over time. The allocation to PE, co-investments, infrastructure, private debt, and real assets will be opportunistic and subject to being able to access opportunities on appropriate terms.

Performance

Overall, the strategy provided a return of 5.1% in Q3 2020, outperforming its benchmark by 4.1%. The largest contributors were Advent International GPE VIII & PAI Europe VI. In terms of losers, the largest detractor was RIDA.

Over one year the mandate has outperformed its benchmark, with a return of 5.0% against a benchmark of 4.7%. Since inception in September 2014, the strategy has returned 4.1%, underperforming its benchmark by 0.6%.

The hedge funds selected for the Portfolio are a blend of:

- i. Relative Value strategies, intended to profit from price dislocations across fixed income and equity markets;
- ii. Global macro strategies, which are intended to benefit significantly from global trends, whether these trends are up or down, across asset classes and geographies;
- iii. Tail risk protection, which in the case of Kohinoor Series Three Fund is intended to offer significant returns at times of stress and more muted returns in normal market environments, and
- iv. Reinsurance

Aberdeen have built a portfolio of hedge funds, private equity funds and co-investments, which can offer a balanced return not wholly dependent on traditional asset class returns. In the case of private equity, the intention is to be able to extract an illiquidity premium over time.

5.10 Pyrford

Pyrford	2020			2019				2018	One Year	Two Years	Since Start 28/9/2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£105.36m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(1.6)	6.2	(4.8)	0.7	0.9	1.1	2.7	(2.0)	0.4	1.6	3.1
Benchmark	1.8	1.3	1.5	1.5	1.7	2.8	1.1	1.5	6.0	6.6	6.9
Difference	(3.4)	4.9	(6.3)	(0.8)	(0.8)	(1.7)	1.6	(3.5)	(5.6)	(5.0)	(3.8)

Reason for appointment

Pyrford were appointed as the Fund's absolute return manager (AR) to diversify from equities. The manager's benchmark is to RPI, which means that the manager is likely to outperform the benchmark during significant market rallies. AR managers can be compared to equities, which have a similar return target. When compared to equities, absolute return will underperform when markets increase rapidly and tend to outperform equities during periods when markets fall.

Performance

Pyrford generated a return of -1.6% in Q3 underperforming its benchmark by 3.4%. Over one year the strategy has returned 0.4%, underperforming its benchmark by 5.6%. Pyrford underperformed its benchmark by 3.8% since inception.

Within the portfolio, both equities and bonds detracted during the third quarter, while the currency hedging programme positively contributed to the quarterly performance. The current asset allocation in the portfolio remains mostly the same as last quarter, with 41% in equities, 58% in bonds and 1% allocation to cash. Within fixed income, the manager continues to adopt a very defensive stance by owning short duration securities to protect the capital value of the portfolio from expected rises in yields. The bond duration target was reduced from 2.5 to 1.5 years following further falls in bond yields.

Outlook and Strategy

Equity markets painted a mixed picture over the third quarter. Brexit uncertainty dominates the outlook and with a year end deadline looming for the UK EU trade deal, the current state of negotiations does not inspire confidence in a positive outcome. Finally, the government bonds markets were unremarkable over the quarter although yields did begin to creep up in the markets sub fund currently invests in. With yields remaining at rock bottom, the manager remains comfortable at the short end of yield curve heading into the final quarter of the year.

The equity side of the portfolio has struggled to keep up with the market due to allocations to the Telecommunication and Energy sectors. There were no asset allocation changes to overseas bonds, but this part of the portfolio detracted over the quarter as sterling strengthened significantly against the US and Canadian dollar. The exposure to short duration bonds acts as a capital protection for the portfolio, but the yield remains on the lower end.

5.11 Newton

Newton	2020			2019				2018	One Year	Two Years	Since Start 31/8/2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£75.67m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	3.5	8.0	(9.2)	1.6	1.7	4.3	4.2	(1.7)	3.8	6.1	3.8
Benchmark	1.0	1.1	1.2	1.2	1.2	1.0	1.2	1.2	4.4	4.5	4.5
Difference	2.5	6.9	(10.4)	0.4	0.5	3.3	3.0	(2.9)	(0.6)	1.6	(0.7)

Reason for appointment

Newton was appointed to act as a diversifier from equities. The manager has a fixed benchmark of one-month LIBOR plus 4%. AR managers have a similar return compared to equity but are likely to underperform equity when markets increase rapidly and outperform equity when markets suffer a sharp fall.

Performance

Newton generated a return of 3.5% in Q3 and outperformed its benchmark by 2.5%. Over one year the strategy has returned 3.8%, underperforming its benchmark by 0.6%. Newton's performance since inception is 3.8% and underperforms its benchmark by 0.7%.

The portfolio performance was mainly driven by positions in stabilising assets, where increased exposure to gold continues to deliver substantial positive returns during the third quarter. On the return seeking side, equities, corporate bonds, and alternatives also contributed to the performance, while allocation to emerging market debt detracted by quarter end. Allocation to cash was reduced and redistributed to risk assets, which in turn is balanced out with increased exposure to gold.

The portfolios exposure is summarised below:

Portfolio Exposures		
	30 June 2020	30 September 2020
Equities	37.00	41.30
UK	6.40	6.50
North America	12.20	16.60
Europe	12.70	12.30
Japan	0.40	0.60
Pacific Basin Ex Japan	2.90	2.20
Emerging Markets	2.40	3.10
Fixed Income	23.30	21.70
Government Bonds	3.90	1.30
Corporate Bonds	13.10	10.50
Index Linked Government	2.80	3.40
Emerging Debt	3.50	6.50
Alternatives	39.70	37.00
Infrastructure Funds	11.30	12.90
Renewable Energy	0.00	0.00
Precious Metals	15.40	17.80
Derivative Instruments	1.50	1.60
Cash and FX Forwards	11.50	4.70
Total	100.00	100.00

5.12 Mellon Corporation (Standish)

Mellon Corporation	2020			2019				2018	One Year	Two Years	Since Start 20/8/2013
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£66.57m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.5	4.7	(2.3)	(0.0)	0.1	0.8	1.9	(2.7)	3.8	1.9	0.9
Benchmark	1.0	1.3	1.2	1.2	1.2	1.2	1.2	1.2	4.7	4.8	5.1
Difference	0.5	3.4	(3.5)	(1.2)	(1.1)	(0.4)	0.7	(3.9)	(0.9)	(2.9)	(4.2)

Reason for appointment

Mellon Corporation were appointed to achieve a 6% total return from income and capital growth by investing in a globally diversified multi-sector portfolio of transferable fixed income securities including corporate bonds, agency and governments debt. The return target was later reduced to 4.4%.

Performance

The Fund returned 1.5% against a benchmark return of 1.0%. Over one year the strategy has underperformed its benchmark of 4.7% by 0.9%, providing a return of 3.8%. Since funding in August 2013, Mellon Corporation has only provided an annual return of 0.9%. The Fund's asset allocation to corporate credit was the primary contributor to its return.

Portfolio Composition:

Allocation to corporate credit remained stable throughout the quarter at around 42% split between Investment Grade and High Yield. The allocation to credit was increased from historically low levels held earlier in Q1 2020 to capitalise on the significant dislocation in credit spreads resulting from the COVID 19 pandemic sell off in risk in March. The portfolio maintains a significant allocation to developed market sovereign debt at 47% market value but employs futures to generate an overall negative duration contribution of 3 years to offset the rate duration contribution from corporates.

Strategy Review

Given the consistent underperformance of the strategy both against the benchmark and peer groups, Members agreed to replace BNY Mellon as the fund's active credit manager and to appoint a manager through the LCIV's Multi-Asset Credit (MAC) fund.

In July 2019, the LCIV informed officers that they have put the MAC manager 'on watch' so the transition process was put on hold until the issues were resolved. On 18 September 2019, LCIV presented to the committee members and after a thorough discussion, members agreed to progress with the transition to the MAC Strategy. The funding amount was £60million. LCIV confirmed that the trading could only take place at month end so there were further issues around the transition date:

- An initial transition date of 31 October 2019 was set. However, due to uncertainties around Brexit, the fund was advised that the manager would not be trading.
- The transition date was then delayed to the of November 2019, however, the fund was advised against this due to the Thanksgiving Day.

On 21 November 2019, LCIV raised a number of options for their Multi Asset Credit (MAC) strategy. As a result, the transition to the MAC strategy was put on hold until this position could be clarified. LCIV then announced that the MAC fund is no longer on watch but will be increasing the level of monitoring of the manager.

On 23rd July 2020, officers were informed that the LCIV are looking to add another investment option to the MAC Strategy to provide a more robust performance and better risk profile for investors, without the single manager risk that currently exists. The current MAC manager remains on enhanced monitoring status, so the transition is still on hold.

5.13 Currency Hedging

No new currency hedging positions were placed in Q3 2020.

6. Consultation

- 6.1 Council's Pension Fund monitoring arrangements involve continuous dialogue and consultation between finance staff, external fund managers and external advisers. The Chief Operating Officer and the Fund's Chair have been informed of the approach, data and commentary in this report.

7. Financial Implications

Implications completed by: Philip Gregory, Finance Director

- 7.1 The Council's Pension Fund is a statutory requirement to provide a defined benefit pension to scheme members. Investment decisions are taken based on a long-term investment strategy. The investment performance has a significant impact on the General Fund. Pensions and other benefits are statutorily calculated and are guaranteed. Any shortfall in the assets of the Fund compared to the potential benefits must be met by an employer's contribution.
- 7.2 This report updates the Committee on developments within the Investment Strategy and on scheme administration issues and provides an overview of the performance of the Fund during the period.

8. Legal Implications

Implications completed by: Dr. Paul Feild, Senior Governance Solicitor

- 8.1 The Council operates the Local Government Pension Scheme which provides death and retirement benefits for all eligible employees of the Council and organisations which have admitted body status. There is a legal duty fiduciary to administer such funds soundly according to best principles balancing return on investment against risk and creating risk to call on the general fund in the event of deficits. With the

returns of investments in Government Stock (Gilts) being very low they cannot be the primary investment. Therefore, to ensure an ability to meet the liability to pay beneficiaries the pension fund is actively managed to seek out the best investments. These investments are carried out by fund managers as set out in the report working with the Council's Officers and Members.

- 8.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 are the primary regulations that set out the investment framework for the Pension Fund. These regulations are themselves amended from time to time. The Regulations are made under sections 1(1) and 3(1) to (4) of, and Schedule 3 to, the Public Service Pensions Act 2013. They set out the arrangements which apply to the management and investment of funds arising in relation to a pension fund maintained under the Local Government Pension Scheme.

9. Other Implications

- 9.1 **Risk Management** - Investment decisions are taken based on a long-term investment strategy. Investments are diversified over several investment vehicles (equities – UK and overseas, bonds, property, infrastructure, global credit and cash) and Fund Managers to spread risk.

Performance is under constant review, with this focused on how the Fund has performed over the past three months, one year and three years.

Background Papers Used in the Preparation of the Report:

- Northern Trust Quarterly Q3 2020 Report; and
- Fund Manager Q3 2020 Reports.

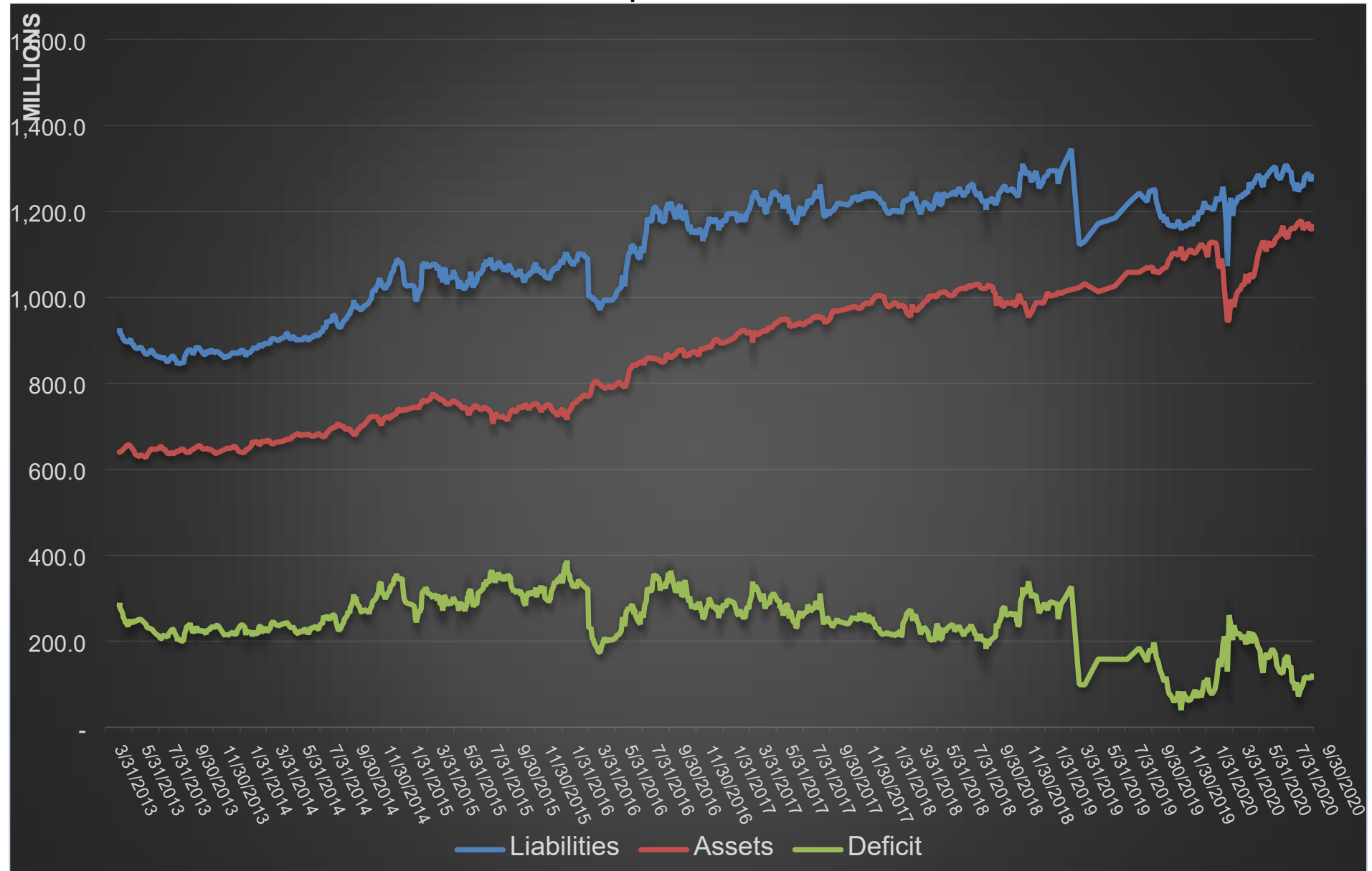
List of appendices:

Appendix 1 - Fund Asset and Liability Values 31 March 2013 to 30 September 2020

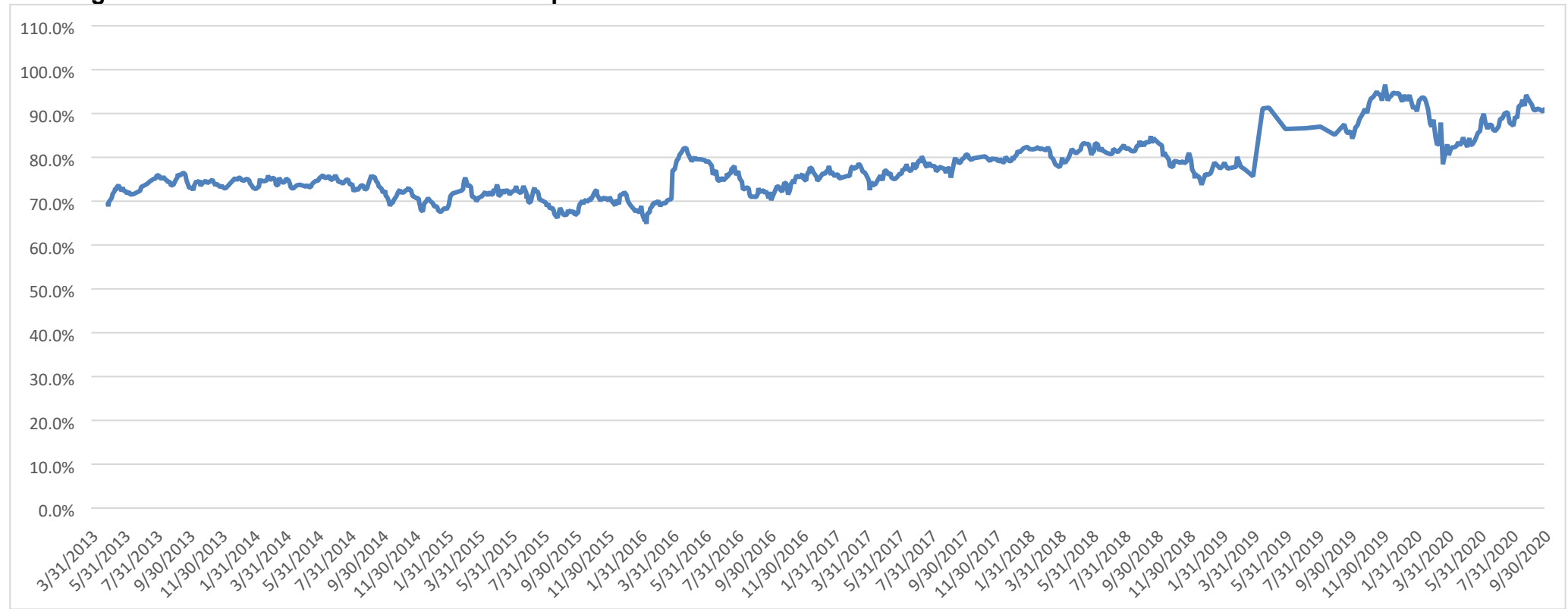
Appendix 2 - Definitions

Appendix 3 - Roles and Responsibilities

APPENDIX 1 - Fund Asset Values 31 March 2013 to 30 September 2020



Funding Level between 31 March 2013 to 30 September 2020



A Definitions

A.1 Scheduled bodies

Scheduled bodies have an automatic right, and requirement, to be an employer in the LGPS that covers their geographical area. Therefore, scheduled bodies do not need to sign an admission agreement. Scheduled bodies are defined in the LGPS Regulations 2013 in Schedule 2 Part 1. Common examples of scheduled bodies are Unitary Authorities, Police and Fire Authorities and Academies.

A.2 Admitted bodies

Admitted Bodies either become members of the LGPS as a result of a TUPE transfer or following an application to the Fund to become an employer in the scheme. In both cases, their admission is subject to the body meeting the eligibility criteria and an admission agreement being signed by all relevant parties.

A.3 Schedule of Admitted and Scheduled bodies

A list of scheduled and Admitted Bodies is provided below

Scheduled bodies	<p>LBBB</p> <p>Barking College Dorothy Barely Academy Eastbury Academy Elutec Goresbrook Free School Greatfields Free School James Campbell Primary Partnerships Learning Pathways Riverside Bridge Riverside Free School Riverside School St Joseph’s Barking St Joseph’s Dagenham St Margarets St Theresa’s Sydney Russell Thames View Infants Academy Thames View Junior Academy University of East London Warren Academy</p>
Admitted Bodies	<p>Aspens Aspens 2 B&D Citizen's Advice Bureau BD Corporate Cleaning BD Schools Improvement Partnership BD Together Be First BD Trading Partner Caterlink</p>

	Cleantech Elevate East London LLP Laing O'Rourke Lewis and Graves Schools Offices Services Ltd Sports Leisure Management The Broadway Theatre Town and Country Cleaners
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B Roles & Responsibilities

B.1 Administering Authority

The London Borough of Barking and Dagenham is, by virtue of Regulation 53 and Part 1 of Schedule 3 of the Local Government Pension Scheme Regulations 2013 the “Administering Authority” for the Local Government Pension Scheme within the geographic area of the London Borough of Barking and Dagenham. In its role as Administering Authority (also known as Scheme Manager) the Council is responsible for “*managing and administering the Scheme.*”

It is normal practice within the Local Government Pension Scheme (LGPS) for the role of the Administering Authority to be exercised by a Pensions Committee. In the case of the London Borough of Barking and Dagenham the Council has delegated the exercise of its role as Administering Authority to the Pensions Committee.

Under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (As amended), Pensions is not an Executive Function. Therefore, the Cabinet cannot make decisions in respect of a LGPS Pension Fund. The committee responsible for the Pension Fund must report to the Council and cannot be subject to the Cabinet.

B.2 Pensions Committee

Under the Constitution of the London Borough of Barking and Dagenham (May 2018) the Pensions Committee exercises “*on behalf of the Council all the powers and duties of the Council in relation to its functions as Administering Authority of the London Borough of Barking and Dagenham Pension Fund.*”

The voting membership of the Pensions Committee is seven Councillors. The Committee may also appoint representatives of interested parties (Trade Unions, Admitted Bodies, pensioners etc) as non-voting members.

Responsibilities

As already stated the Pensions Committee exercises all the powers and duties of the Council in relation to the Local Government Pension Scheme (LGPS). As detailed in the Council’s Constitution this includes:

- (i) To approve all policy statements required or prepared under the LGPS Regulations;
- (ii) To be responsible for the overall investment policy, strategy and operation of the Fund and its overall performance, including taking into account the profile of Fund liabilities;
- (iii) To appoint and terminate the appointments of the Fund Actuary, Custodian, professional advisors to, and external managers of, the Fund and agree the basis of their remuneration;
- (iv) To monitor and review the performance of the Fund’s investments including receiving a quarterly report from the Chief Operating Officer;
- (v) To receive actuarial valuations of the Fund;

(vi) To monitor the LGPS Regulations, Codes of Practice or guidance issued by the Pensions Regulator and the National Scheme Advisory Board as they apply to pension benefits and the payment of pensions and their day to day administration and to be responsible for any policy decisions relating to the administration of the scheme;

(vii) Selection, appointment and termination of external Additional Voluntary Contribution (AVC) providers and reviewing performance;

(viii) To consider any recommendations made or views expressed by the London Borough of Barking and Dagenham Pension Board.

Individual members of the Pensions Committee have a responsibility to obtain a high level of knowledge and skills in relation to their broad ranging responsibilities in respect of the Local Government Pension Scheme. Therefore, ongoing training is essential.

In 2010/2011 CIPFA produced a Pensions Finance, Knowledge & Skills Framework and a Code of Practice on Public Sector Pensions Finance Knowledge and Skills. The Barking and Dagenham Pension Fund subsequently adopted the recommendations of the CIPFA Code of Practice and accepted the need for competencies by both Members and Officers in the six technical areas of knowledge and skills as then set out by CIPFA:

- Pensions legislative and governance context
- Pensions accounting and auditing standards
- Financial services procurement and relationship management
- Investment performance and risk management
- Financial markets and product knowledge (including Investment Strategy)
- Actuarial methods, standards and practices

As a result of changes to the Local Government Pension Scheme and CIPFA guidance since 2014 it is also necessary for members of the Pensions Committee to have clear knowledge and understanding of:

- Pensions Administration (including the role of The Pensions Regulator)

B.3 Fund Administrator

The Chief Operating Officer is responsible as the Fund Administrator for:

- Acting as principal advisor to the Fund
- Ensuring compliance with Legislation, Regulation and Statutory Guidance including advising in respect of the various policy documents and statements required under the LGPS Regulations
- Ensuring effective governance and audit arrangements

On a day to day basis the management and co-ordination of all Pension Fund activity is led by the Investment Fund Manager.

B.4 Fund Actuary

The appointment of a Fund Actuary required in order to comply with Regulations 62 and 64 of the LGPS Regulations 2013.

The Fund Actuary is a completely independent and appropriately qualified adviser who carries out statutorily required Fund Actuarial Valuations and other valuations as required and who will also provide general actuarial advice. The work of the Actuary includes (but is not limited to):

- Undertaking an Actuarial Valuation of the Fund every three years. The next Valuation will be as at 31 March 2019 and the Actuary must complete his report by March 2020. The results of this Valuation will result in the setting of the Employer Contribution Rates for the three years 2020-2021, 2021-2022 and 2022-2023
- Undertaking more limited Valuations in respect of New Employers, Exiting Employers, Bulk Transfers and for Accounting purposes

B.5 Investment Advisor

The Investment Advisor (otherwise known as the Investment Consultant) is completely independent of the Fund and provides advice in respect of investment matters. This includes:

- The Fund's Investment Strategy Statement including its asset allocation
- The selection of investment managers
- Monitoring and reviewing Investment Managers' performance

B.6 The Independent Advisor

The Independent Advisor who is also completely independent of the Fund provides governance and investment challenge and input together with training across the activities and responsibilities of the Fund.

B.7 Investment Managers

External Investment Managers manage the Funds investments on behalf of the Pensions Committee.

The Investment Managers' responsibilities include

- Investment of Pension Fund assets in compliance with legislation, the Fund's Investment Strategy Statement and the Investment Management Agreement between the Pension Fund and the Investment manager
- The selection of investments
- Providing regular reports on performance to the Fund Officers
- Attending the Pensions Committee if requested

As a result of the Government's Investment Pooling initiative the relationship between Investment Managers and the London Borough of Barking and Dagenham Pension Fund will, over an extended period of time, become an indirect relationship due to the increasing involvement of the London Collective Investment Vehicle (London CIV) in the selection and monitoring of Investment Managers.

B.8 Employers

The Employers within the London Borough of Barking and Dagenham Pension Fund are listed at Appendix 2.

Employers have a wide range of responsibilities which include

- Automatically enrolling eligible Employees in the LGPS
- Providing timely and accurate data to the Administering Authority in respect of individual members including joiners, leavers, pay details etc
- Deducting contributions from Employees pay correctly
- Paying to the Administering Authority both Employers and Employees contributions by the due date
- Determining their Discretions policy in accordance with the LGPS Regulations
- Operating Stage 1 of the Internal Dispute Resolution Procedure
- Communicating, as appropriate, with both Scheme Members and the London Borough of Barking and Dagenham Pensions Team

In undertaking their responsibilities Employers should have regard to any documentation issued by the London Borough of Barking and Dagenham in its role as Administering Authority including any Pension Administration Strategy issued in accordance with the LGPS Regulations.

Employers should also be aware of the requirements placed upon them as detailed in the Pension Regulator's Code of Practice No 14 "*Governance and Administration of Public Service Pension Schemes.*"

PENSIONS COMMITTEE

16th December 2020

Title: Draft Pension Fund Annual Report 2019/20	
Report of the Chief Operating Officer	
Public Report	For Information
Wards Affected: None	Key Decision: No
Report Author: Jesmine Anwar, Pension Fund Accountant	Contact Details: Tel: 020 8227 3763 E-mail: jesmine.anwar@lbbd.gov.uk
Accountable Director: Philip Gregory, Finance Director	
Accountable Strategic Leadership Director: Claire Symonds, Acting Chief Executive	
<p>Summary:</p> <p>This report presents the Pensions Committee with the Annual Report for the year ended 31 March 2020 and includes the 2019/20 Pension Fund Accounts.</p> <p>The Annual Report is available on the Council's website at:</p> <p>https://www.lbbdpensionfund.org/barking-and-dagenham-pension-fund/about-us/forms-and-publications/</p>	
<p>Recommendations</p> <p>The Committee is asked to consider and note the Pension Fund Annual Report for 2019/20.</p>	

1. Introduction and Background

1.1 Regulation 57 of the Local Government Pension Scheme Regulations 2013 requires each administering authority to prepare an annual report for the pension fund. The regulations prescribe that the following should be included in the annual report:

- a report on the management and financial performance of the fund during the year;
- an explanation of the investment policy;
- a report on the administrative arrangements for the fund;
- a statement from the actuary on the latest funding level;
- the current version of the governance compliance statement;
- the fund account and net asset statement with supporting notes and disclosures;
- the extent to which the fund has achieved its required performance levels set out in its pension administration strategy; and
- the current version of the funding strategy statement, investment strategy statement and communications policy and any other information the authority considers appropriate.

1.2 The Annual Report of the Pension Fund has been prepared and is subject to audit by BDO. Several additional disclosures are now required to assist with the production of the LGPS annual report. The additional reporting includes:

- i. Fund Age Distribution as at 31 March 2020;
- ii. Pension Fund Three Year Budget;
- iii. An analysis of fund assets as at 31 March 2020;
- iv. An analysis of investment income as at 31 March 2020; and
- v. A separately reported Pension Board section.

1.3 The Committee is recommended to note the Draft Pension Fund Annual Report for 2019/20.

2. Funding Strategy Statement (FSS)

2.1 After the 2019 triennial valuation was completed, the FSS was produced by the actuary (Hymans Robertson) and officers and was agreed by members in the March 2020 committee.

2.2 The funds current actuary- Barnett Waddingham has since updated the FSS. A summary of the key changes includes:

- i. Updates to the modelling technique used by the previous actuary to value the liabilities and set contributions for each employer

- ii. Addition of an exit credit policy

3. Investment Strategy Statement (ISS)

- 3.1 The Investment Strategy Statement will be updated following a full Strategic Asset Allocation Review by the Fund's Investment Advisor.

4. Consultation

- 4.1 Council's Pension Fund governance arrangements involve continuous dialogue and consultation between finance staff and external advisers. For the FSS there is a 30-day consultation with all Fund employers. The consultation process for this FSS is:

- i. A draft version of the FSS was issued to all participating employers on 27th November 2020;
- ii. Comments requested within 30 days (by 28th December 2020);

The Chief Operating Officer and the Fund's Chair have been informed of the commentary in this report.

5. Financial Implications

Implications completed by: Philip Gregory, Finance Director

- 5.1 The Pension Fund is a statutory requirement to provide a defined benefit pension to scheme members. The Pensions Committee is responsible for agreeing and monitoring the investment strategy and formally reviewing the Fund's governance and administration of the Fund. This paper forms part of the strategy and governance reviewing process.

6. Legal Implications

Implications completed by: Paul Feild, Senior Governance Solicitor

- 6.1 As observed in the main body of the report Regulation 57 of the Local Government Pension Scheme Regulations 2013 requires each administering authority to prepare an annual report for the pension fund. This report serves that purpose.

7. Other Implications

- 7.1 There are no other immediate implications arising from this report.

Public Background Papers Used in the Preparation of the Report:

The Local Government Pension Scheme Regulations 2013 (as Amended)

List of appendices: Appendix 1: Draft Pension Fund Annual Report 2019/20

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PENSION FUND ANNUAL REPORT 2019/20



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1. Executive Summary

1.1 Introduction

Welcome to the London Borough of Barking and Dagenham Pension Fund (“the Fund”) Annual Report for 2019/20. This report allows the Council to demonstrate the high standard of governance and financial management applied to the Fund. It brings together several reporting strands into one document that enables stakeholders to see how the Fund is managed and how it is performing.

The Fund is Local Government Pension Scheme (“LGPS”) and is overseen by a Committee of the London Borough of Barking and Dagenham (“the Council”), who are the sponsoring employer for the Fund. The Pension Committee consists of seven Councillors, with three nonvoting observers representing the Unions, members of the Fund and employers.

The Fund is governed by the Public Service Pensions Act 2013 and the LGPS Regulations 2013 and the LGPS (Management and Investment of Funds) Regulations 2016. The content and format of this annual report is prescribed by the LGPS Regulations 2013.

1.2 Performance

During the year the market value of the Fund’s assets decreased from £1,041.9m to £993.8m; which equates to a decrease of 4.6%, net of investment and administration costs.

1.3 Strategy Changes

No major strategic changes were made during the year. Continuous monitoring of the Fund’s strategy and managers was carried out, with quarterly performance, cashflow and governance reviews by the Pension Committee.

1.4 Fund Employers

Two new employers were admitted to the Fund in 2019/20, including, Aspens 2 and Caterlink. During the year, the total number of active employers within the Fund was 39.

1.5 Triennial Valuation

The Fund’s triennial review was last completed on 31 March 2019. Following strong investment growth, the funding level increased from 77% in 2016 to 90% at 31 March 2019. The Fund’s estimated funding level as at 31 March 2020 was 81.9%.

1.6 Pension Boards

The Public Service Pensions Act required Councils to establish local Pension Boards by the 1st of April 2015. The Council established a Local Pension Board for the Fund by the 31st of March 2015, with the first Pension Board meeting held on the 27th July 2015. The Pension Board Terms of Reference are included as appendix 9 of this report.

1.7 General Data Protection Regulations

The General Data Protection Regulation (GDPR) came into force on 25 May 2018. GDPR changes how organisations process and handle data, with the key aim of giving greater protection and rights to individuals. To ensure GDPR compliance, every fund must update their privacy notice in line with the new requirements setting out, among other things, why certain data is held, the reason for processing the data, who they share the data with and the period for which the data will be retained.

The London Borough of Barking and Dagenham (the Council) is the Data Controller for the purposes of the Data Protection Act 1998. This means that the Council is responsible for making decisions about how your personal data will be processed and how it may be used.

1.8 LGPS pooling

As part of working collaboratively with other LGPS Funds, the Fund has signed up to the London Collective Investment Vehicle (LCIV) with all the other London Borough Pension Schemes. Currently the Fund has around £369m, or 37% of its investment, managed via the CIV. With LGPS Asset Pooling having officially started in April 2018, the Fund will follow Government Regulation and use the CIV for future investments where an appropriate manager and strategy is available.

1.9 Responsible Investing

The Fund is committed to being a long-term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills.

The Committee recognises that social, environmental and ethical considerations are among the factors which investment managers will consider, where relevant, when selecting investments. In addition, the Committee undertakes training, and this will include training and information sessions on matters of social, environmental and corporate governance.

The Fund, in preparing and reviewing its 2020 Investment Strategy Statement and will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

As at 31 March 2020 the Fund held a 0.8% allocation in renewable energy, including wind farms and solar through its infrastructure investments.

Current Investment Restrictions:

At the 12 March 2014 Committee Meeting, Members agreed a policy to restrict direct investment in tobacco but allow indirect investments in tobacco through pooled funds for both passive and active managers. This restriction will be reviewed as part of each Investment Strategy Review.

2. Fund Governance and Administration

2.1 Statutory Background and Legal Framework

The Fund is part of the Local Government Pension Scheme (LGPS). The LGPS is a statutory scheme, established by an Act of Parliament and governed by regulations made under the Superannuation Act 1972. Membership of the LGPS is open to all local authority employees except teachers, fire-fighters and police, who have their own separate schemes.

The Scheme is open to all employees aged 16 or over, whether they work full-time or part-time. The Council automatically enrolls all employees into the Fund, as long as they have a contract of employment of more than three months duration.

All members of the scheme can choose to leave at any time. During 2019/20 employees contributed per a scale ranging from 5.5% to 12.5% based on their full time equivalent rate of pensionable pay, which included basic pay, contractual overtime and regular bonuses. Employers contribute at a rate set by the actuary. Employees in the Scheme are entitled to a pension of one sixtieth of their final pensionable pay for each year of service. Further information regarding the various benefits offered can be found on the Fund's website address: www.lbbdpensionfund.org

2.2 Scheme Funding and Administration

At 31 March 2020, the Fund was funded and administered as set out below:

i. Funding

The Scheme is a funded scheme, financed by contributions from the Council, other employers, employees, investment income and capital growth.

ii. Administering Authority

The Council, as Administering Authority, has legal responsibility for the Fund as set out in the LGPS Regulations. The Council delegates its responsibility for administering the Fund to the Pensions Committee, which is the formal decision-making body for the Fund.

iii. Myners principles

In 2000, the UK Government commissioned Lord Myners to review institutional investment in the UK as there were concerns that the behaviour of institutional investors, including pension funds, was distorting the economic decision making to the detriment of small and medium sized companies. Ten principles were outlined representing a model of best practice, which were incorporated into regulations applicable to the LGPS. In 2008 Treasury revised the ten principles down to six higher level principles which have now been adopted by DCLG. In response, CIPFA published a guide to assist authorities in the production of their compliance statements.

In July 2010, the Financial Reporting Council published the UK Stewardship Code which is designed to lay out the responsibilities of institutional investors as shareholders and provide guidance as to how those responsibilities may be met. The Code encourages better communication between shareholders and companies.

iv. The Pensions Committee

The Pensions Committee meets quarterly to discuss investment strategy and objectives, to examine legislation and other developments that may affect the Fund, and to review the performance of the fund managers. At all times, the Committee must discharge its responsibility in the best interests of the Fund. All Committee Members have voting rights. Co-opted members do not have voting rights. The Committee is responsible for:

- determining the investment policy objectives;
- ensuring appropriate investment management arrangements are in place;
- appointment of investment managers, advisers and custodians;
- reviewing investment managers' performance and approving statutory reports;
- considering requests from organisations wishing to join the Fund as admitted bodies;
- commissioning the actuarial valuations in accordance with LGPS Regulations; and

In addition, as recommended by the Myners' Principles 2008, the Council has adopted the recommendations of the Knowledge and Skills Framework. The Pension Committee undertake various training throughout the year to equip them in their responsibility as Fund Trustees. Following local elections in May 2018, the Pension Panel became a Pension Committee, with new Members appointed, including a new chair and deputy chair. In May 2019, two Members were appointed to the Committee. The current Pensions Committee is provided below:

Pension Committee from 16 May 2019		Meetings Attended
Chair:	Cllr Dave Miles	3
Deputy:	Cllr Giasuddin Miah	3
	Cllr Sade Bright	2
	Cllr Amardeep Singh Jamu	2
	Cllr Kashif Haroon	3
	Cllr Tony Ramsay	2
	Cllr Foyzur Rahman	1
Committee Observers		
Union:	GMB – Steve Davies	
Member:	Susan Parkin	
Employer:	UEL – Dean Curtis	

v. Conflicts of Interest

Conflicts of interest are managed as follows:

- a) When new Members join the Committee, they are given training on their duties. It is emphasised that Members are required to act in the interests of the Fund members and should put aside personal interests and considerations.
- b) An adviser is available to the Committee to provide strategy advice. The actuary advises on the Fund's solvency and employer contribution rates, with officers available to give independent advice. Employee groups are represented on the Committee, with quarterly Pensions Committee meetings open to the public and minutes and reports published.
- c) Members' personal or financial interest in items under discussion must be declared at the beginning of each Committee meeting.

2.3 Scheme Governance Policy Statement

It is important that appropriate governance arrangements are put in place representing the needs of all stakeholders in the Scheme. In accordance with LGPS Regulations 2007, the scheme administering authorities are now required to prepare a Governance Compliance Statement. This statement should set out how administering authorities comply with the best practice guidance as issued by the Secretary of State for Communities and Local Government and Myners Principles 2001 as Amended 2008. The scheme's governance compliance statement is included as appendix 2 of this report.

2.4 Fund Fraud / National Fraud Initiative

Since 1996 the Audit Commission has run the National Fraud Initiative (NFI), an exercise that matches electronic data within / between audited bodies to prevent and detect fraud.

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively. The use of data for NFI purposes is controlled to ensure compliance with data protection and human rights legislation. In 2006 the Audit Commission published a Code of Data Matching Practise, which, for the 2008/09 NFI exercise, has been updated to take account of new legislation as a result of the Serious Crime Act 2007.

The NFI currently matches all public sector pension scheme data to the Department for Work and Pensions (DWP) database of deceased persons. This acts as an automated life certification process for the Fund.

The Council is committed to the NFI process and undertook the data matching exercise in early 2013. Any cases where fraud is suspected will be pursued and where necessary, legal action taken. In addition, the Fund has employed a tracing agency, who provides quarterly reports on scheme membership to prevent overpayment of pensions.

The Fund also uses the Government's Tell Us Once service, which is a service that informs the Fund when a death has been registered.

2.5 Administrative Management Performance

The main activities covered by the Pension Administration Team in 2018/19 and 2019/20 is summarised in table 1 below:

Table 1: Administrative Activity

Type of Activity	2018/19	2019/20
Number of Starters	829	728
Number of Transfer Value Actual	45	85
Number of Refunds	190	159
Number of Deferred Benefits	445	237
Number of Estimates	1056	1213
Number of Retirements	246	240
Number of Death in Service	8	3
Death in Retirement	160	177

3. Career Average Pension Scheme

3.1 Summary

From 1 April 2014 the final salary LGPS ended and was replaced by a Career Average Pension Scheme. The key elements of are summarised below:

Table 2: LGPS 2014 for membership from 1st April 2014

Provision	LGPS 2014
Basis of the Pension	Career Average Revalue Earnings
Accrual Rate (% of salary)	1/49 th (previously Final Salary)
Revaluation Rate (the rate of increase)	Consumer Price Index
Normal Pension Age	Equal to the individual member's State Pension Age - minimum 65
Contribution Flexibility	Members can opt to pay 50% contributions for 50% of the pension benefit (previously no option)
Death in Service Lump Sum	3 x pensionable pay (no change)
Definition of Pensionable Pay	Actual pensionable pay to include non-contractual overtime and additional hours for part time staff
Vesting Period	2 years (previously 3 months)

The contribution bandings are summarised in table 3 below:

Table 3 Contribution Bands and Rates for 2019/20

Actual Pensionable Pay	Main Contribution	50/50 Section	Actual Pensionable Pay	Main Contribution	50/50 Section
Up to £14,400	5.50%	2.75%	£64,601 - £91,500	9.90%	4.95%
£14,401 - £22,500	5.80%	2.90%	£91,501 - £107,700	10.50%	5.25%
£22,501 - £36,500	6.50%	3.25%	£107,701 - £161,500	11.40%	5.70%
£36,501 - £46,200	6.80%	3.40%	More than £161,501	12.50%	6.25%
£46,201 - £64,600	8.50%	4.25%			

3.2 Retirement

The scheme is funded on the basis that the benefits will become available at the member's State Pension Age (minimum age 65), although members can remain in the scheme up to age 75. Employees can voluntarily retire from age 55.

Pension built up before 1 April 2014 has a protected Normal Pension Age (NPA), which for almost all members is age 65. If a member retires and draws their entire pension at their protected NPA, the pension built up in the scheme before 1 April 2014 will be paid in full.

If a member chooses to take their pension before their protected NPA, the pension built up in the scheme before 1 April 2014 will normally be reduced, as it is being paid earlier. If taken later than their protected NPA it will be increased because it is being paid later. The amount of any reduction or increase is based on how many years earlier or later than the protected NPA the member draws the pension they have built up in the scheme to 31 March 2014.

The benefits built up in the CARE scheme from April 2014 have an NPA linked to a member's State Pension Age (SPA). The amount of any reduction or increase is based on how many years earlier or later than their SPA they draw their LGPS 2014 pension. Members cannot take benefits built up to April 2014 separately from the benefits built up from April 2014. All the pension would have to be drawn at the same time, except for Flexible Retirement.

For membership after 1 April 2008, members can opt to take a lump sum by giving up some of their pension. For each £1 of pension given up, a lump sum of £12 will be paid, up to a maximum of 25% of the capital value of all their pension benefits.

3.3 Ill Health Retirement

If a member's employment is terminated due to permanent ill health and the member has at least 2 years membership, the pension is based on the member's accrued membership, plus:

First Tier- 100% of prospective membership between leaving and NPA, where the member has no reasonable prospect of being capable of obtaining gainful employment before age 65

Second Tier- 25% of prospective membership between leaving and NPA, where the member is unlikely to be capable of obtaining gainful employment within a reasonable period of time but is likely to be able to be capable of obtaining gainful employment before NPA.

Third Tier- with no enhancement where the member is likely to be able to obtain gainful employment within three years of leaving and are payable for so long as they are not in gainful employment.

3.4 Death in Service

A lump sum death grant, equal to three times the member's actual pay, is issued regardless of length of membership. In addition to the lump sum death grant, pensions are payable to surviving spouses/civil partners/cohabiting partners and children up to the age of 18, or while still in full time education up to age 23, which is based on the deceased member's pension. The member may nominate who they wish to receive their death grant.

3.5 Death in Retirement

Surviving spouse's/civil partner's/cohabiting partner's and children's pensions will be paid in the same way as above, but it will be based on the former employee's pension. If the death occurs before ten years of the pension has been paid and before the member reached age 75, the balance will be paid as a lump sum.

4. Pension Fund Management

4.1 Investment Managers

The Fund is invested in equity, fixed income, diversified growth funds, infrastructure, credit, property and alternatives, which include Hedge Funds and Private Equity. Investments are made both in the United Kingdom and overseas. The Fund does not manage any fund's internally but uses thirteen external fund managers, the details of which are provided below:

<u>Aberdeen Standard Asset Management PLC</u> Bow Bells House, 1 Bread Street London, EC4M 9HH	<u>Newton Investment Management Ltd</u> 160 Queen Victoria Street, London, EC4V 4LA
<u>Baillie Gifford & Co</u> Calton Square, 1 Greenside Row, Edinburgh EH1 3AN	<u>Prudential/M&G</u> Governor House, Laurence Pountney Hill, London, EC4R 0HH
<u>BlackRock</u> 12 Throgmorton Avenue, London, EC2N 2DL	<u>Pyrford International</u> 79 Grosvenor Street, London, W1K 3JU
<u>BNY Mellon (BNY Standish)</u> 160 Queen Victoria Street London, EC4V 4LA	<u>RREEF</u> 1 Appold Street, London, EC2A 2UU
<u>Hermes GPE</u> 150 Cheapside London EC2V 6ET	<u>Schroders</u> 31 Gresham Street, London, EC2V 7QA
<u>Kempen International</u> Beethovenstraat 300, 1077 WZ Amsterdam PO Box 75666, 1070 AR Amsterdam	<u>UBS</u> 21 Lombard Street, London, EC3V 9AH,
<u>London CIV</u> 59½ Southwark Street London, SE1 0AL	

4.2 The work of the Pension Committee is supported by a number of officers, advisors and external managers as set out below:

- i. Actuary:** Hymans Robertson (20 Waterloo Street, Glasgow, G2 6DB)
- ii. AVC Provider:** Prudential PLC (Governor's House, London, EC4R 0HH)
- iii. Auditor:** BDO (55 Baker St, Marylebone, London W1U 7EU)
- iv. Custodian:** Northern Trust (50 Bank St, Canary Wharf, London E14 5NT)
The Fund's custodian is State Street Bank and Trust Company who provide safekeeping, settlement of trades, income collection and corporate actions data.
- v. Legal Advisors:** Eversheds (1 Wood St, London, London EC2V 7WS)
- vi. Investment Advisor:** Aon Hewitt (10 Devonshire Square, London, EC2M 4YP)

- vii. Independent Advisor:** John Raisin (130 Goldington Road, Bedford, MK40 3EA)
- viii. Performance Measurement:** WM Markets (525 Ferry Road, Edinburgh, EH5 2AW)
- ix. Subscription bodies:** Local Authority Pension Fund Forum (LAPFF)

Officers: The Following officers are responsible for the management of the Fund:

Philip Gregory Finance Director (section 151 officer)
Tel: 020 8227 5048 Email: philip.gregory@lbbd.gov.uk

David Dickinson Investment Fund Manager
Tel: 020 8227 2722 Email: david.dickinson@lbbd.gov.uk

Justine Spring Pensions Manager (dealing with Teachers' Pensions)
Tel: 020 8227 2607 Email: justine.spring@lbbd.gov.uk

Jesmine Anwar Pension Fund Accountant
Tel: 020 8227 3763 Email: jesmine.anwar@lbbd.gov.uk

Madhvi Dodia Senior Pensions Officer
Tel: 020 8227 2039 Email: madhvi.dodia@lbbd.gov.uk

Gary Stephenson Pensions Officer (Dealing with surnames beginning A - F)
Tel: 020 8227 3343 Email: gary.stephenson@lbbd.gov.uk

Shelagh Clark Pensions Officer (Dealing with surnames beginning G - M)
Tel: 020 8227 3463 Email: shelagh.clark@lbbd.gov.uk

Kinny Chauhan Pensions Officer (Dealing with surnames beginning N - Z)
Tel: 020 8227 2296 Email: kinny.chauhan@lbbd.gov.uk

5. Investment Policy, Performance and Developments

5.1 Powers of Investment

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) and require an Administering Authority to invest any Fund money that is not needed immediately to make payments from the Fund.

5.2 Investment Strategy

The Council, as Administering Authority, is responsible for setting the overall investment strategy of the Fund and monitoring the performance of its investments. This task is carried out by the Pension Committee on behalf of the Fund.

The investment strategy is usually set for the long-term but reviewed periodically by the Committee to ensure that it remains appropriate to the Fund's liability profile.

For 2017/18, the LGPS (Management and Investment of Funds) Regulations 2016, required the Fund to publish an Investment Strategy Statement (ISS), which replaced the Statement of Investment Principles.

The ISS addresses each of the objectives included in the 2016 Regulations, namely:

- The Fund's requirement to invest fund money in a wide range of instruments;
- The Fund's assessment of the suitability of investments and types of investment;
- The Fund's approach to risk and the ways in which risks are measured and managed;
- The Fund's approach to pooling investments and use of collective investment vehicles;
- The Fund's policy on how social, environmental or corporate governance considerations are considered in the selection, non-selection, retention and realisation of investments.

The Fund's ISS can be found in Appendix 4 of this report.

5.3 Monitoring the Investment Managers

Investment manager performance is measured by the State Street. A summary of their report is included within the quarterly performance report taken to each Committee meeting. Council officers meet the investment managers regularly to review their investment performance.

5.4 Asset Allocation and Structure

The investment portfolio is weighted towards equities together with holdings in property, bonds, infrastructure and absolute return mandates. The risk of holding substantial equity investments is mitigated by investing in different markets across the world in many different sectors and stocks. The Fund investments are allocated to eleven fund managers and within different investment types to further diversify risk.

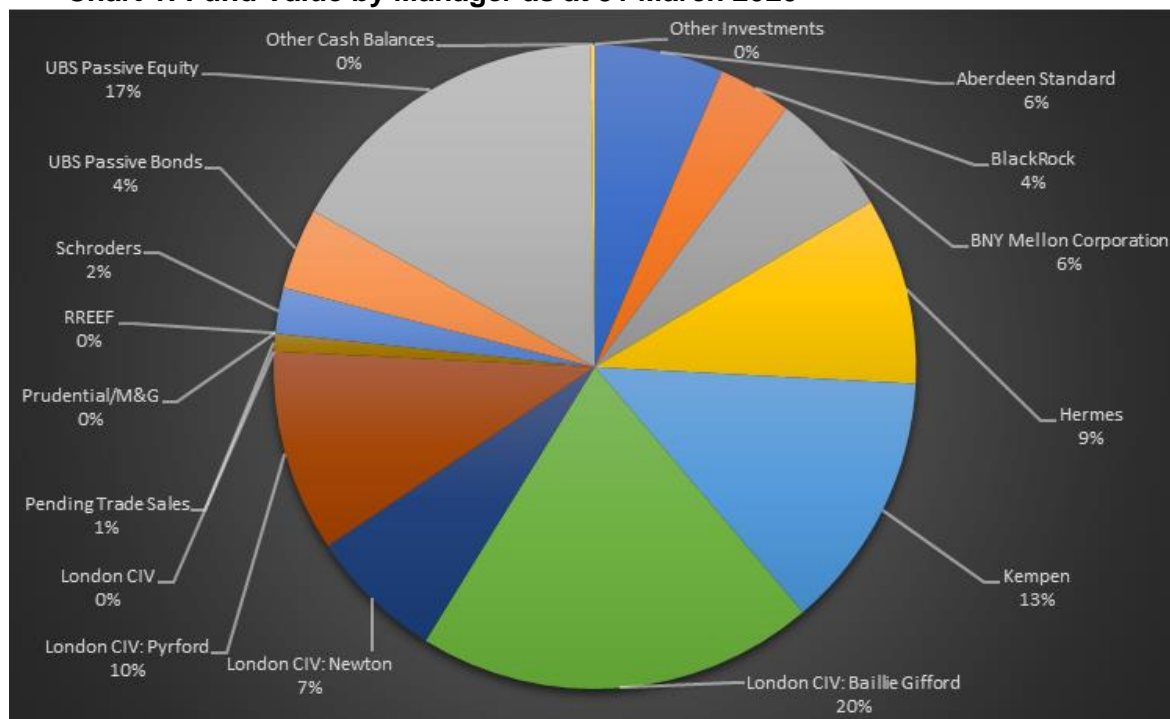
Table 4 shows the Fund's investment portfolio by type, weighting and benchmark:

Table 4: Fund Asset Allocation and Benchmarks as at 31 March 2020

Investment Manager	Mandate	Asset Allocation (%)	Investment Area
Aberdeen Standard Asset Man.	Active	6.5	Diversified Alternatives
BlackRock	Active	3.7	Property Investments (UK)
BNY Mellon Corporation	Active	6.3	Global Credit
Hermes	Active	9.4	Infrastructure (LLP)
Kempen	Active	13	Global Equity (Pooled)
London CIV: Baillie Gifford	Active	20.1	Global Equity (Pooled)
London CIV: Newton	Active	6.8	Absolute Return
London CIV: Pyrford	Active	10.2	Absolute Return
London CIV	Passive	0.0	None
Pending Trade Sales	Active	0.9	Diversified Alternatives
Prudential/M&G	Active	0.0	Alternatives – Senior Loans
RREEF	Active	0.0	Property Investments (UK)
Schroders	Active	2.3	Property Investments
UBS Passive Bonds	Passive	4.1	All Share Fixed Income
UBS Passive Equity	Passive	16.8	Global Equity
Other Cash Balances	Cash	-0.2	Cash
Other Investments – Tax Recoverable	Cash	0	Cash

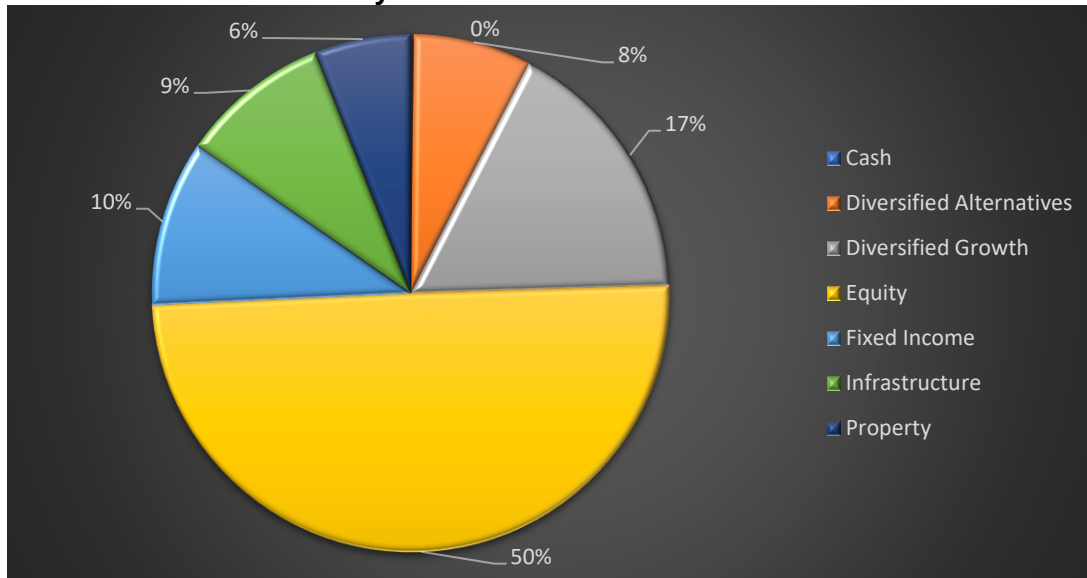
The split, by value, between managers is graphically shown in the pie chart below:

Chart 1: Fund Value by Manager as at 31 March 2020



The percentage split between asset class is graphically shown in the pie chart below.

Chart 2: Fund Allocation by Asset Class as at 31 March 2020



5.5 Independent Advisor's (John Raisin) Market Report 2019-20

Given the outbreak of COVID-19 and the huge fall in equity markets in late February and March 2020 it is easy to forget that for most of the year 1 April 2019 to 31 March 2020 global stocks increased in value and the world economy continued to experience positive, if modest, economic growth. During April to December 2019 markets were clearly influenced by pessimism and ultimately optimism regarding US-China trade relations, and accommodative major central bank policy. April to December 2019 saw global equities advance with the MSCI World Index up 11% and the United States S&P 500 up 14%.

April to December 2019 saw uncertainty in the United States-China trade relationship. 2019, however, ended positively – on 12-13 December both sides announced significant progress on a “Phase 1” deal. The US S&P 500 index reached a (then) new closing high of 3,169 on 13 December.

April to December saw strong consumer confidence in the United States and low unemployment in the major economies of the United States, the Eurozone and the United Kingdom. US unemployment was 3.5% in December 2019 a fifty-year low and Eurozone unemployment was 7.3% its lowest since the financial crisis of 2008. There were however also concerning economic indicators.

US inflation continued to be clearly below the Federal Reserve's 2% target. Eurozone and Japanese inflation remained well below the targets of their central banks. Economic growth showed signs of weakness. US annualised growth fell to below 2.5% compared with around 3% for the April to December 2018 period. Chinese growth at around 6% (annualised) was the lowest since 1990.

April to December 2019 saw the US Federal Reserve and the European Central Bank clearly move towards looser more supportive (of both financial markets and the economy) monetary

policy. This was in clear contrast to 2018 when both had tightened their monetary policy approach with the Federal Reserve increasing interest rates three times in the period June to December 2018.

In July, September and October 2019 the US Federal Reserve reduced the target range for the federal funds rate by 0.25%. At the press conference following the October meeting Chair Jay Powell stated "Today we decided to lower the interest rate for the third time this year.... weakness in global growth and trade developments have weighed on the economy and pose ongoing risks. These factors, in conjunction with muted inflation pressures, have led us to lower our assessment of the appropriate level of the federal funds rate..."

The European Central Bank (ECB) also acted to support financial markets and the Eurozone economy. In June the ECB extended to at least the first half of 2020 the existing ultra-low interest rate policy. In September the ECB further loosened monetary policy including reducing the deposit interest rate by 0.1% to minus 0.5% and reintroducing quantitative easing which was restarted on 1 November at the rate of asset purchases of 20 billion Euros per month. The Bank of Japan continued its huge monetary stimulus programme which commenced in 2013.

The resolution of some of the trade tensions between the United States and China in late 2019 and the further loosening of monetary policy by the US Federal Reserve and ECB in the second half of 2019 had led to a general view that global stocks would continue their long upward trend through 2020. Indeed, on 19 February 2020 the US S&P 500 Index reached a new record closing high of 3,386 almost 5% above the 31 December 2019 closing figure of 3,231.

On 24 February 2020, however, equities across the globe began to rapidly fall following the decision of Italy to quarantine 10 towns in response to COVID-19 (Coronavirus). Concerns regarding COVID-19 then rapidly and hugely affected US equity markets and other major markets. By the end of Friday 28 February, the S&P 500 had fallen approximately 13% from its 19 February all-time high. On 28 February Federal Reserve Chair Jay Powell stated that "... the coronavirus poses evolving risks to economic activity. The Federal Reserve is closely monitoring developments... We will use our tools and act as appropriate to support the economy." The actions subsequently taken by, and led by the US Federal Reserve during March 2020 were unprecedented even in comparison to those following the 2008 financial crisis.

The governments of a number of leading world economies - the UK, Canada, France and Italy announced major fiscal initiatives to support their economies and citizens and also, by extension, financial markets on or before 20 March 2020. Measures included income subsidies for laid off workers, tax deferrals and state loans or guarantees for companies. The German Parliament and US Congress also agreed unprecedented fiscal support packages in the last week of March. While these measures were crucial to mitigating the adverse impact of COVID-19 on economies and financial markets it was the extraordinary interventions of the US Federal Reserve which, surely, prevented a financial market meltdown in March 2020.

At an emergency meeting on 3 March 2020, the US Federal Reserve, reduced the target range for federal funds rate (its main interest rate) by ½%, to the range 1 to 1 ¼%. COVID-19 equity related market chaos continued however and was compounded by reaction to an oil price plunge on 9 March arising from Russian and Saudi Arabian action which resulted in a trading break in New York, the first time this measure had been used.

Then in an unscheduled (Sunday) meeting on 15 March the US Federal Reserve intervened on an unprecedented scale. The federal funds rate was reduced by a full 1% to the range 0% to ¼% and an asset purchase programme announced of “at least” \$500bn of Treasury bonds and “at least” \$200bn of mortgaged backed securities to “support the smooth functioning of markets....” To further support the flow of credit to businesses and households the US Federal Reserve also announced measures to ease requirements upon and to support banks and other savings institutions. To directly support not only the US markets and economy but other major developed markets and economies the Federal Reserve also announced, on 15 March 2020, “co-ordinated action” with a number of other central banks to lower the cost of borrowing dollars internationally.

The ECB acted decisively on 18 March announcing a 750 billion Euro Pandemic Emergency Purchase Programme (PEPP) covering government and corporate debt to “...counter the serious risks to the... outlook for the euro area posed by the outbreak and escalating diffusion of the coronavirus, COVID-19.” The Bank of England acted decisively reducing Bank Rate by from 0.75% to 0.25% on 10 March and then on 19 March to an all-time low of 0.10% together with the introduction of a £200 billion purchase programme of bonds. On 10 March, it also introduced measures to facilitate further lending to businesses by UK banks.

Turmoil however continued when markets reopened on Monday March 16. The S&P 500 fell by 12% only to rise by 6% on 17 March and then to fall by 5% on 18 March. On 16 March in the context of the clearly rapid spread of COVID-19 in Europe, closures and severe disruption to businesses not only in Europe but the US coupled with an admission by President Trump that the Coronavirus crisis could last till “August, could be July, could be longer...” US markets fell 12%. 18 March was a day of panic in world markets with the FTSE All World equity index falling almost 7%, government bond prices falling, oil prices again plummeting, sterling falling to its lowest level against the dollar since the 1980s. The S&P index closed on Friday 20 March at 2,305 which was 15% lower than at the close on Friday 13 March with liquidity shocks exacerbating the declines in equities.

Then on 23 March, the US Federal Reserve intervened in an unprecedented manner. First it extended its purchases of Treasury Bonds and mortgage backed securities from \$700billion to “the amounts needed to support smooth market functioning and effective transmission of monetary policy...” This meant that to help facilitate the supply of credit to households and businesses the US Federal Reserve was prepared to buy unlimited amounts of government securities. Secondly, in an extraordinary break with previous precedent the Federal Reserve announced initiatives to purchase both new issue and secondary market corporate debt. This meant that in effect the Federal Reserve was prepared to directly support employers and act as a backstop in the corporate bond market.

In the days following this extraordinary intervention by the Federal Reserve of 23 March 2020, financial markets began to recover with the S&P 500 closing at 2,585 on 31 March a full 12% higher than on 20 March. Admittedly, after much argument Congress finally passed a huge \$2.2 trillion fiscal stimulus on 27 March to assist US business and families. However, there can be no doubt that during March 2020 the US Federal Reserve acted decisively and in an unprecedented manner to avoid a financial market meltdown while the US Congress argued over what measures to take.

In summary, over the January to March 2020 Quarter global equity prices fell heavily with the MSCI World Index down 21% (in \$ terms). European and UK equities were especially badly

affected with the MSCI EMU Index down 25% (in Euro terms) and the FTSE All Share down 25% (in £ terms). The S&P 500 lost 20% as did the Nikkei 225.

Though the effects of COVID-19 were only really felt by the world economy and financial markets from late February onwards GDP data for the first Quarter 2020 demonstrates the immediate and devastating economic effects. The “Third” estimate from the US Bureau of Economic Analysis, issued on 25 June 2020, indicated that US “gross domestic product (GDP) decreased at an annual rate of 5.0 percent in the first quarter of 2020...” In the previous three Quarters an annualised rate of approximately plus 2% was achieved. Eurozone GDP was down 3.6% in the first Quarter of 2020, compared to the previous Quarter, according to a Eurostat data release of 20 July 2020. Eurostat stated “These were the sharpest declines observed since time series started in 1995” In each of the previous three Quarters Eurozone GDP increased by plus 0.1%-0.3%.

In conclusion the period April to December 2019 was positive for both equity markets and the world economy. However the effects of COVID-19 in late February and March 2020 resulted in a market crisis which would almost certainly have resulted in a financial market meltdown had it not been for the unprecedented actions of the US Federal Reserve supported by other major central banks and the fiscal policy initiatives announced by the governments of a number of leading world economies.

However, despite unprecedented monetary and fiscal stimulus by central banks and governments world equity markets were down over 20% for the January to March 2020 Quarter and the impact of COVID-19 on the world economy looked extremely serious. Overall, for the year 1 April 2019 to 31 March 2020 world equity markets measured by the MSCI World Index were down over 10%.

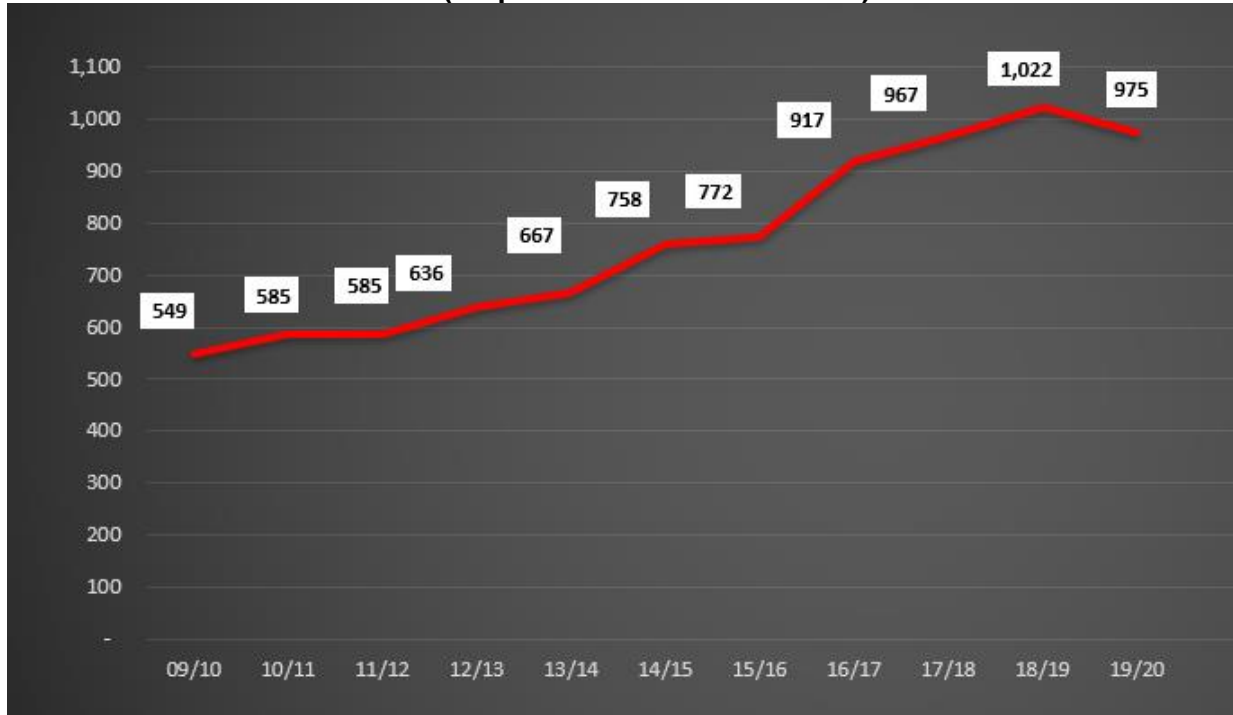
5.6 Fund Investment performance

For the twelve months to 31 March 2020 the Fund returned -5.1% against a benchmark return of -0.5%, representing an underperformance of 4.6%. Over three years the Fund has returned an annualised return of 1.7%, which was 2.4% below the Fund’s benchmark return of 4.1%.

Equities were the main detractors of performance, with UBS Equities and Kempen providing a return of -9.4% and -22.3% for the year. Passive bonds, infrastructure and Alternatives provided positive returns of 10.0%,10.8% and 2.2% respectively. The remaining managers provided a small negative return ranging from 1.3% for the Baillie Gifford to 2.7% for the fund’s property manager, Schroders.

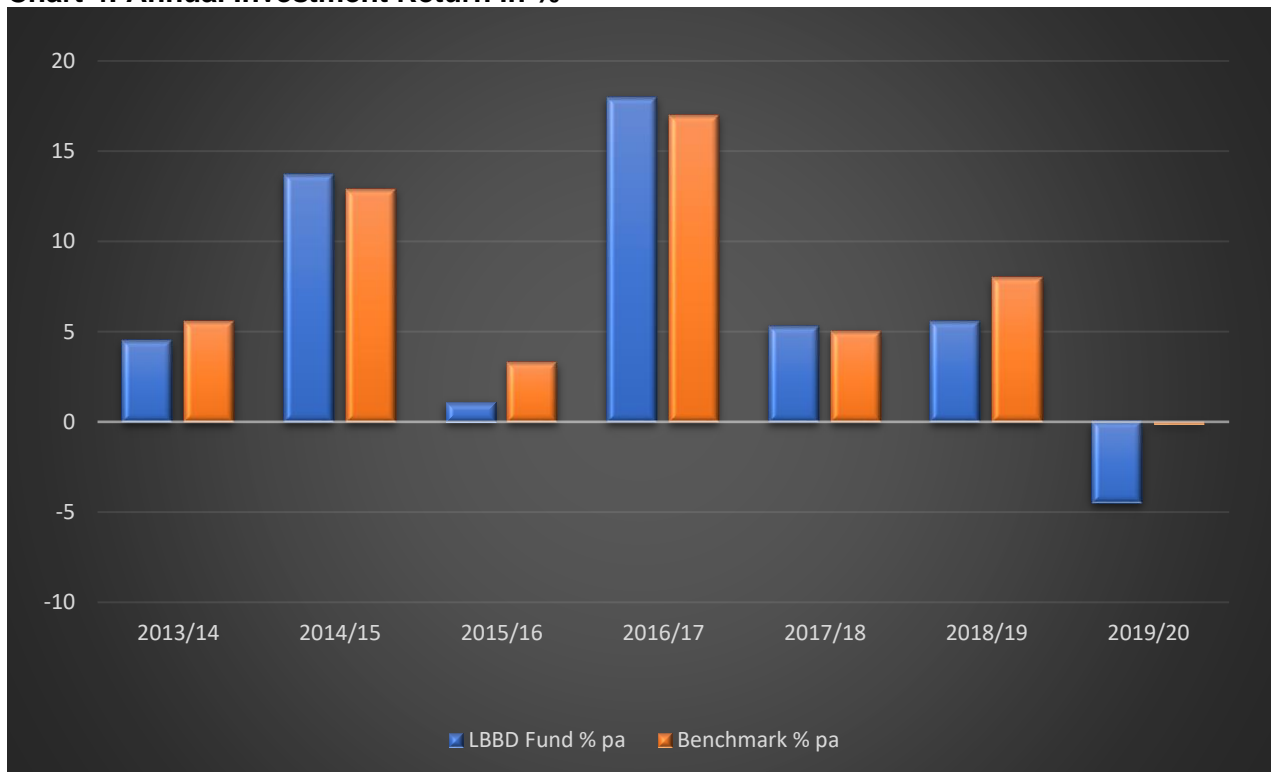
The Fund's value since 1 April 2009 is shown in Chart 3 below:

Chart 3: Fund value in millions (1 April 2008 to 31 March 2020)



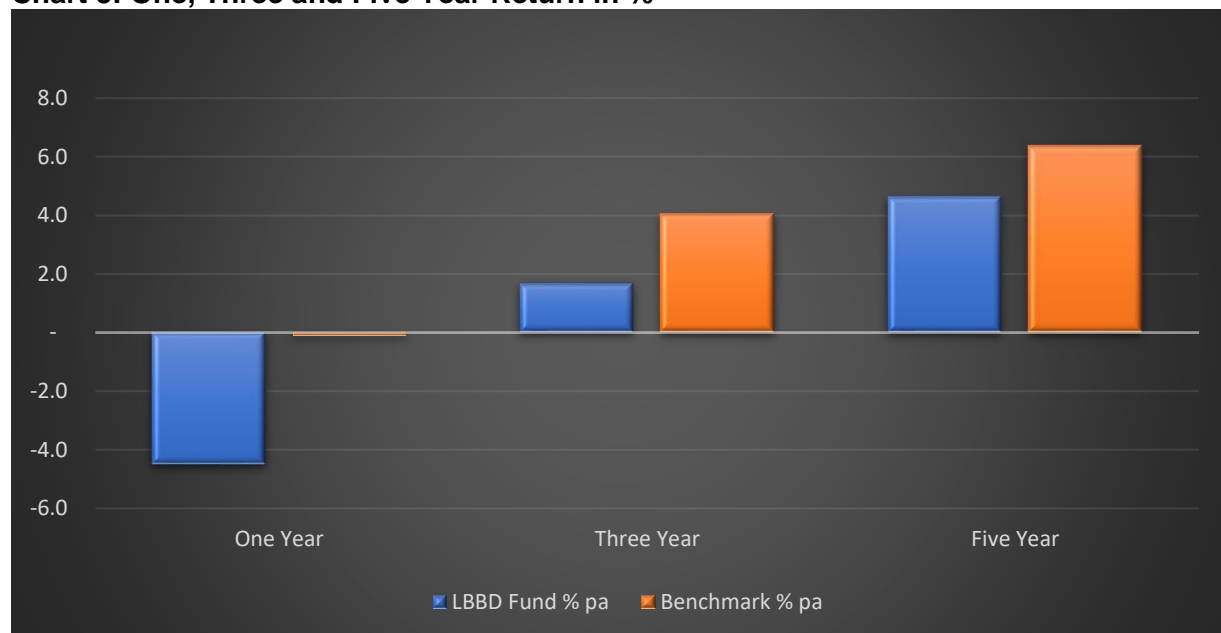
The funds annual investment return since 2013/14 is shown in chart 4 below:

Chart 4: Annual Investment Return in %



The Funds one, three and five year investment return is shown in chart 5 below:

Chart 5: One, Three and Five Year Return in %



5.7 Investment Manager Performance

Professional fund managers undertake the day-to-day management of the Fund's investments. Each fund manager works to a specific investment target in both the value of the funds invested and the returns required within the total value of the Fund. The Pension Committee closely monitors how each manager performs and reviews the actual performance of the investment managers each quarter to ensure the Fund is performing in line with its own targets and against other local authorities.

5.8 Fund Assets and Income

An analysis of fund assets (table 5) as at 31 March 2020 and investment income (table 8) during 2019/20 is outlined below. The reporting of this data is to assist with the production of the LGPS annual report and therefore the categories reported on below may differ from the accounts, which have a different reporting requirement. The Fund asset values do not include accruals. As most of the Fund's investments are in pooled funds, the geographical split is based on where the Fund manager is registered rather than the that of the underlying holdings.

Table 5: Fund Assets as at 31 March 2020

	UK £m	Non-UK £m	Global £m	Total £m
Equities	-	-	496	496
Bonds	41	-	63	104
Alternatives	227		169	395
Cash	-1	-	-	-1
Total	266	-	727	993

Table 6: Investment Income Received in 2019/20*

	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	-	-	11.2	11.2
Bonds	-	-	0.4	0.4
Alternatives	3.0	-	-	3.0
Cash	0.1	-	-	0.1
Total	3.1	-	11.6	14.7

* Investment income includes dividends and investment income that has been used to pay fund manager fees.

6. Member Training and Development

6.1 In October 2011 CIPFA published a Code of Practice on Public Sector Pensions Finance Knowledge and Skills (KSF), with the aim of facilitating sound governance in the decision making of the public bodies responsible for administering pension funds.

6.2 The framework provides a framework for the training and development of officers and members involved in the management and administration of public pension funds. CIPFA now requires a commitment for LGP schemes to adopt the key principles of the KSF and report how they have implemented the requirement of the code in the Annual Report.

6.3 This KSF is intended as:

- i. a tool to determine if there is the right skill mix to meet a scheme financial management needs;
- ii. an assessment tool to measure their progress and plan their development; and
- iii. a framework for organisations and individuals to tailor to their own circumstances.

6.4 The KSF requires differing degrees of competencies for officers and members. Officers are grouped into various categories requiring different levels of competencies. There are six key technical areas for which KSF should be acquired by those involved in the decision making of pension funds:

- Pensions Legislative and Governance context
- Pensions Accounting and Auditing Standards
- Financial Services procurement and relationship management
- Investment Performance and Risk management
- Financial Markets and Products Knowledge
- Actuarial methods standards and practices

6.5 The Fund is committed to ensuring that officers and members acquire relevant KSF which are developed through access to training and education from various sources including:

- Attendance at relevant conferences, seminars and training courses;
- Update on regulations and governance changes at every meeting;
- A minimum of 4 Pension Fund Committee meetings per year; and
- Training at Committee meetings where required.

6.6. The Fund has adopted the following statement concerning the training and development of Members and officer responsible for managing the Fund:

1. This Fund adopts the key recommendations of the Code of Practice on LGPS.
2. This Fund recognises that effective financial administration and decision making can only be achieved where those involved have the requisite knowledge and skills.
3. Accordingly, this Fund will ensure it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public-sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision making.
4. These policies and practices will be guided by reference to a comprehensive framework of K&s requirements such as that set in the CIPFA Pensions Finance KSF.
5. This organisation will report on an annual basis how these policies have been put into practice throughout the financial year.
6. This organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Chief Operating Officer, who will act in accordance with the organisation's policy statement, and where they are a CIPFA member, with CIPFA Standards of Professional Practice.

6.7 Summary of training provided to Pension Committee and Officers.

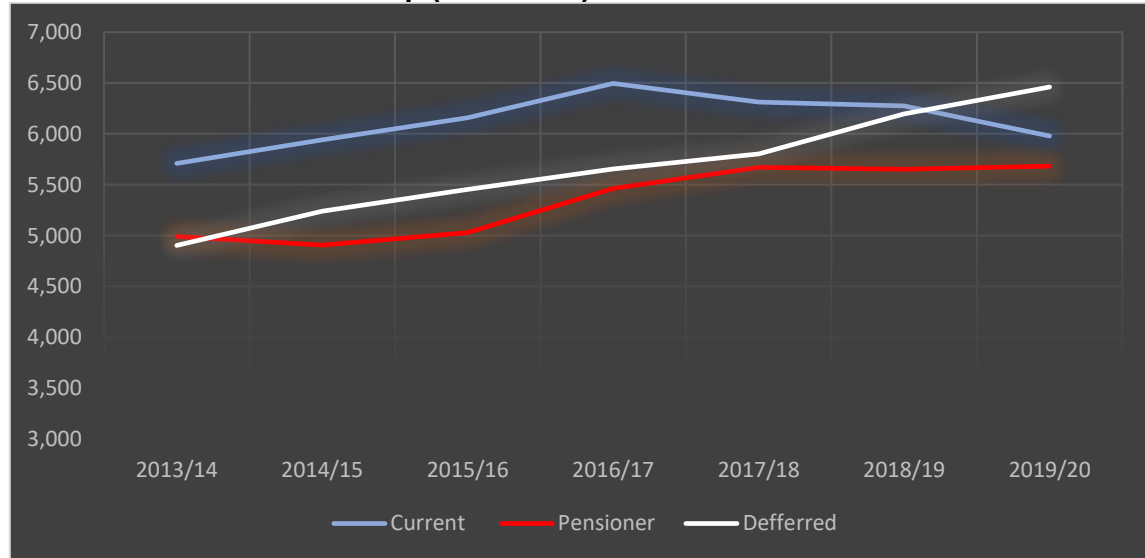
1. Training was provided on the following Knowledge and Skills as outlined below.
 - i. Investments Strategy:
 - Investment returns and Economics, Bonds, Equities and Alternatives;
 - Strategy construction; and
 - Investment Strategy Statement Update.
 - ii. Knowledge and Skills
 - Updates on Pensions Legislative, Governance, Accounting and Auditing Standards changes; and
 - Updates on Financial Markets and Products Knowledge.
 - iii. Alternatives
 - Hedge Funds and Private Equity Update
2. In addition, further training was provided to Pension Board Members, including:
 - iv. Delivery and Decision Making
 - Business Plan, Triennial Valuation and Risk register and monitoring risks;
 - Governance arrangements for the Board; and
 - Roles and responsibilities of the Pension Board and Pensions Committee.

7. Fund Membership Details

7.1 Scheme Membership

The chart below shows the membership of the Fund over 7 years. All of the Council's employees, except those covered by the Teachers' Pension Scheme Regulations, can join the Council's Pension Scheme. The LGPS regulations also provide for specified bodies (employers) to be admitted into the Fund.

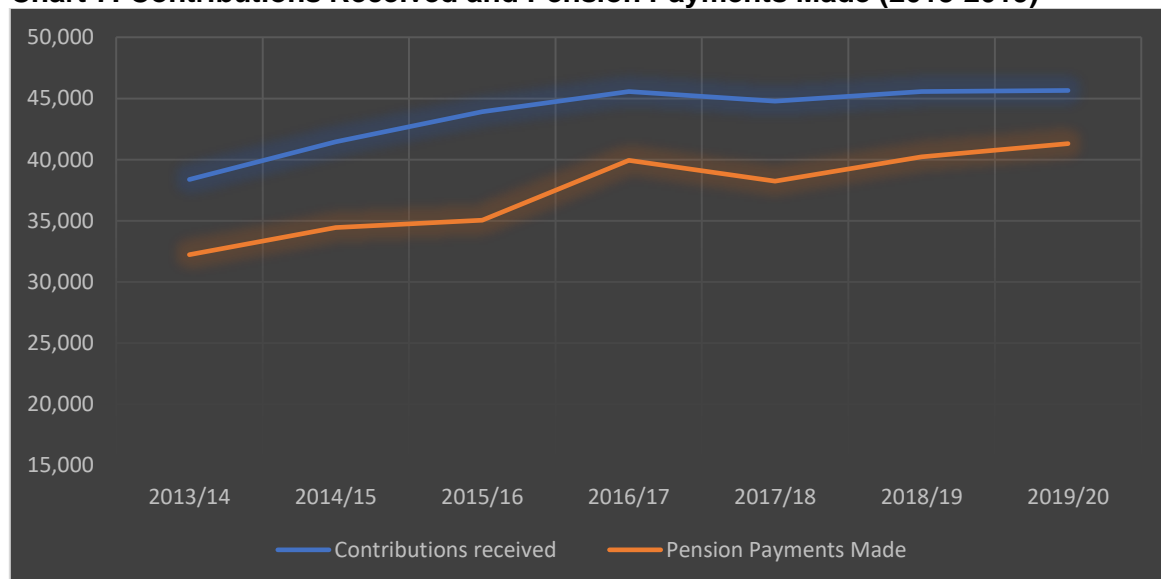
Chart 6: Scheme Membership (2013-2019)



7.2 Members Cash Flow

The chart below summarises the contributions paid to the Fund and the amounts paid out by the Fund in respect of members over the past 7 years.

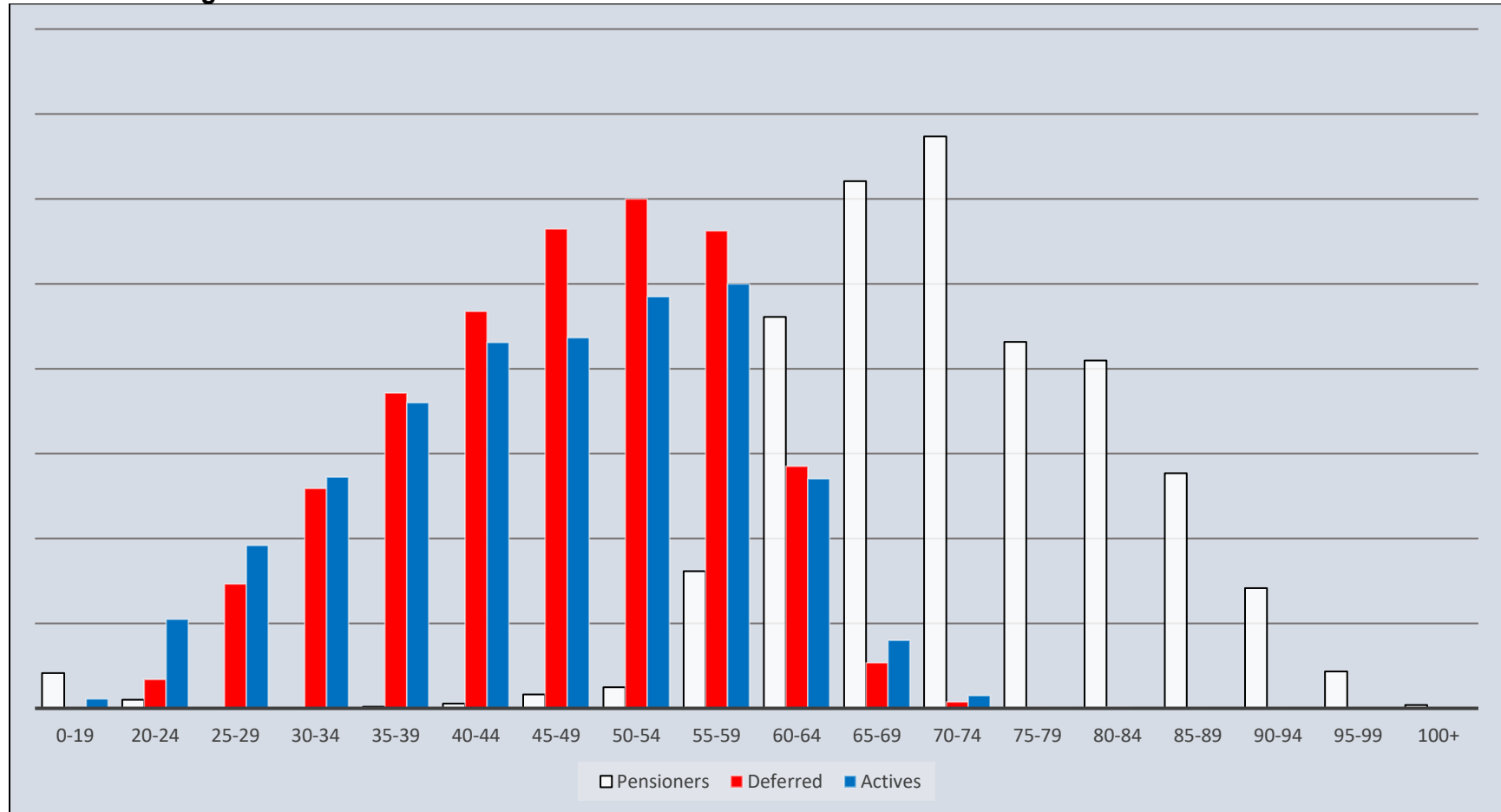
Chart 7: Contributions Received and Pension Payments Made (2013-2019)



7.3 Membership Details

As at 31 March 2020 the Fund had a total membership of 18,530, split into 5,981 active members, 6,461 deferred members 5,683 pensioners and 405 undecided members. The Fund membership is split 69.4% female and 30.6% male, with six pensioners over 100 years old. Chart 8 shows the Fund age profile at 31 March 2020.

Chart 8: Fund Age Distribution as at 31 March 2020



7.5 Employers: The Scheme had thirty nine active employers as at 31 March 2020. A summary of the employers analysed by scheduled body and admitted body and separated further into active (with active members) and ceased (no active members) is provided below:

Scheduled Bodies	Admitted Bodies
<p>Active</p> <p>LBBB Barking College Dorothy Barley Academy Eastbury Academy Elutec Goresbrook Free School Greatfields Free School James Campbell Primary Partnerships Learning Pathways Riverside Bridge Riverside Free School Riverside School St Margarets St Joseph's Dagenham St Joseph's Barking St Theresa's Dagenham Sydney Russell Academy Thames View Infants Academy Thames View Junior Academy University of East London Warren Academy</p>	<p>Active</p> <p>Aspens Aspens 2 B&D Citizen's Advice Bureau BD Corporate Cleaning BD Schools Improvement Partnership BD Together Be First BD Management Services Caterlink Cleantech Elevate East London LLP Laing O'Rourke Lewis and Graves Schools Offices Services Ltd Sports Leisure Management The Broadway Theatre Town and Country Cleaners</p>
<p>Not Active</p> <p><i>Magistrates Court (not active)</i></p>	<p>Not Active</p> <p><i>Abbeyfield Barking Society (not active)</i> <i>Age UK (not active)</i> <i>Council for Voluntary Service (not active)</i> <i>Disablement Assoc. of B&D (not active)</i> <i>East London E-Learning (not active)</i> <i>London Riverside (not active)</i> <i>May Gurney (not active)</i> <i>RM Education (not active)</i></p>

7.6 Summary of Benefits

The Scheme is a defined benefit salary scheme which guarantees to provide benefits which are a specified fraction of a Scheme member's "final-pay". Benefits are not affected by variations in investment performance.

7.7 Additional Voluntary Contributions AVC

Scheme members may also elect to pay additional contributions to be invested in an Additional Voluntary Contribution Scheme. The London Borough of Barking and Dagenham have chosen Prudential as its AVC provider.

7.8 Dispute Resolution

The LGPS is required by statute to plan for the formal resolution of disagreements between, on the one hand, the managers of the Scheme and on the other, active deferred and pensioner members or their representatives. The dispute resolution's official name is the "internal dispute resolution procedure" (IDRP). The following gives an overview of the IDRP process:

First stage

If a member needs to make a formal complaint, they should make it:

- in writing; and
- normally within 6 months of the day when they were told of the decision they want to complain about.

The complaint will be considered carefully by a person nominated by the body that took the decision against which the member wishes to complain (the "nominated person"). That person is required to give the member their decision in writing.

If the nominated person's decision is contrary to the decision the member complained about, the employer or administering authority that made that original decision will now have to deal with the case in accordance with the nominated person's decision.

If the decision the member complained about concerned the exercise of discretion by the employer or administering authority, and the nominated person decides that the employer or administering authority should reconsider how they exercised their discretion, they will be required to reconsider their original decision.

Second Stage

The member can ask the pension scheme administering authority to take a fresh look at the complaint in any of the following circumstances:

- the member is not satisfied with the nominated person's first-stage decision;
- the member has not received a decision or an interim letter from the nominated person, and it is 3 months since the member lodged their complaint; and
- it is one month after the date by which the nominated person told the member (in an interim letter) that they would give them a decision, and they have still not received that decision.

This review would be undertaken by a person not involved in the first stage decision.

The member will need to send the appropriate administering authority their complaint in writing. The time limits for making the complaint are set out within the IDRP Employee's

Guide (see link below). The administering authority will consider the complaint and give their decision in writing.

If the member is still unhappy following the administering authority's second stage decision, they can take the case to the Pensions Ombudsman provided they do so within 3 years from the date of the original decision (or lack of a decision) about which the member is complaining.

If a member is unhappy with a decision made please ask them to contact this office in the first instance as many issues can be resolved without the need to resort to the lengthy process of IDR. It could simply be that there is a misunderstanding of the Regulations and that the decision made is in fact correct and this can be explained to the member accordingly.

8. Risk Management

8.1 Summary

The Council has incorporated key Fund risks in its corporate risk register. In addition, the Fund has an active risk management programme in place and has adopted the recommendations of the 2008 Myners principles. The measures that the Council has in place to control key risks are summarised below under the following headings:

- Financial;
- Demographic;
- Longevity;
- Regulatory and
- Governance.

A copy of the Council's risk register is included as appendix 7 of this report. Further details on risk can be found in the Fund's accounts on pages 50 to 53.

8.2 Management of Third Party Risks

The Pension Committee reviews annually all SSAE 16 and AAF 01/06 reports for its investment managers and custodian. SSAE 16 and AAF 01/06 reports are Assurance reports on internal controls of service organisations which can identify issues within the way a fund manager is run. Where there are concerns the Committee contacts the fund manager for steps it has taken to mitigate risks or issues raised by third party auditors.

All employers are regularly informed of their statutory duty to ensure that contributions are received by the Administering Authority on time.

8.3 Financial Performance

The Fund prepares a three-year plan of its funding called the Funding Strategy Statement (FSS). The purpose of the Funding Strategy Statement is:

- To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- To support the regulatory requirement to maintain as nearly consistent employer contributions as possible; and
- To take a prudent longer-term view of funding those liabilities.

Admitted and Scheduled bodies are circulated with valuation results for comments and agreement on contribution rates. Their responses are considered in preparing the FSS for the Fund. The FSS is included as appendix 3 of this report.

9. Actuarial Report on Fund Valuation

9.1 Actuarial Valuation and Solvency of the Fund

Legislation requires the Fund to have an actuarial valuation undertaken every three years. The purpose of the valuation is for an independent assessment to be made of the financial health of the Fund and its ability to meet its obligations to pay pensions in the future.

The aim of the report is to recommend employer contribution levels to ensure that assets in the fund cover liabilities over the long term. The key features of the review were that:

- the funding target remains unchanged to achieve a funding level of at least 100% over a specific period;
- future levels of price inflation are based on the Consumer Price Index (CPI) (previously Retail Price Index) which is assumed to be 2.3%
- the market value of the pension scheme's assets at 31 March 2019 was £1,022m; and
- assumptions made were prudent and based on available evidence.

9.2 Actuarial Statement

The Actuarial Statement is included as appendix 6 of this report and has been produced by the Fund's Actuary, Hymans Robertson LLP.

9.3 Monitoring of Fund's Funding Position

The Administering Authority monitors the funding position between valuation dates, allowing for actual investment returns and changes in financial assumptions (such as liability discount rate) caused by changes in market conditions. This report is prepared by the Fund's actuary Hymans Robertson.

In addition, specific inter-valuation monitoring for individual employers may be undertaken if requested by the employer. The Council is the largest employer in the Fund and undertakes this inter-valuation monitoring annually.

10. Independent auditor's report to the members of London Borough of Barking and Dagenham on the pension fund financial statements published with the pension fund annual report

11. Pension Fund Three Year Budget (2020/21 to 2022/23)

- 11.1 At the March 2014 Pension Committee one of the recommendations in the governance review provided by Aon Hewitt was for a Fund budget to be included in the Business Plan. At the June 2020 Committee, Members agreed a budget for the next three years. The proposed budget is provided in table 7.
- 11.2 The three-year budget shows a movement from members being employed by the Council to being funded by admitted bodies as staff move across to the various companies set up by the Council. The forecast is for the Council contribution to increase as the rate increases from 21.0% in 2020/21, 22.0% in 2021/22 and 23.0% in 2022/23. Admitted body contribution will initially increase, but as the admitted bodies are closed to new entries, their contributions will decrease over time. Due to these changes, the overall member income will decrease.
- 11.3 An increase in death grant payments is projected in 2020/21. Pension payments are forecast to increase due to an increase in the number of pensioners as well as to reflect a pension increase of 1.7% for 2020/21.
- 11.4 Overall the Fund is expected to be cashflow negative for net dealings with members but cashflow positive if investment income and management expenses are included.

Table 7: Pension Fund Budget 1 April 2020 to 31 March 2023

<u>Contributions</u>	2020/21 Budget	2021/22 Budget	2022/23 Budget
Opening Market Value	974,493	1,012,293	1,050,243
Employee Contributions			
Council	6,800	6,600	6,400
Admitted bodies	1,000	900	800
Scheduled bodies	1,950	2,000	2,050
Employer Contributions			
Council	21,000	22,000	23,000
Admitted bodies	4,000	3,750	3,500
Scheduled bodies	7,250	7,400	7,500
Pension Strain	1,000	1,000	1,000
Transfers In	2,500	2,500	2,500
<u>Total Member Income</u>	45,500	46,150	46,750
<u>Expenditure</u>			
Pensions	-36,500	-37,500	-38,500
Lump Sums and Death Grants	-7,000	-6,500	-6,500
Transfers Out	-2,500	-2,500	-2,500
Administrative expenses	-700	-700	-700
<u>Total Expenditure on members</u>	-46,700	-47,200	-48,200
<u>Net dealings with members</u>	-1,200	-1,050	-1,450
<u>Returns on Investments</u>			
Investment Income	7,500	7,500	7,500
Profit (losses)	35,000	35,000	35,000
Investment management expenses	-3,500	-3,500	-3,500
Net returns on investments	39,000	39,000	39,000
Net increase (decrease) in assets	37,800	37,950	37,550
Closing Market Value	1,012,293	1,050,243	1,087,793

Appendix 1: Fund Accounts 2019/20

The key changes in the Fund's income and expenditure are summarised below:

- 19/20 started off with strong positive returns for the first three quarters, but uncertainty caused by Covid-19 resulted in a market correction in the fourth quarter. As a result, the Fund's return for the year was a negative, with an investment return, net of fund manager fees and custodian costs, of -5.1%, which was 4.6% lower than its benchmark of -0.5%.
- The Fund decreased in value by £48.1m from £1,041.9m as at 31 March 2019 to £993.8m as at 31 March 2020.
- Contributions into the Fund increased by £0.1m (0.2%)
- Benefit payments increased by £1.1m (2.7%) as a result of an increase in the amount of pensions payments made.
- Audit fees for the year increased from £16k to £19.7k.

Explanatory Foreword

The primary function of the Council in respect of these accounts is as an Administering Body to the Fund.

The 2019/20 Fund Accounts consist of:

- Fund Account;
- Returns from Investments;
- Net Assets Statement; and
- Notes to the Accounts.

Publication

This report will be made available through the Council's website, the Fund's website (www.lbbdpensionfund.org) and to all employers and members participating in the Fund as well as Council Members on request as appropriate. A copy of this document and all other documents referred to in this report can be obtained upon receipt of a written request to the Treasury and Pensions Manager.



Pension Fund Accounts

for the year ended

31 March 2020

London Borough of Barking and Dagenham Pension Fund Account

	Note	2018/19 £000	2019/20 £000
Dealings with members, employers and others directly involved in the scheme			
Contributions	8	45,570	45,653
Transfers in from other pension funds	9	2,372	4,588
		47,942	50,241
Benefits	10	(40,216)	(41,307)
Payments to and on account of leavers	11	(2,765)	(6,589)
		(42,981)	(47,896)
Net additions from dealings with members		4,961	2,345
Management expenses	12	(5,957)	(6,355)
Net Additions/(Withdrawals) including Fund Management Expenses		(996)	(4,010)
Returns on Investments			
Investment Income	13	9,759	14,691
Profit (losses) on disposal of investments and changes in the market value of investments	14	44,767	(58,921)
Net returns on investments		54,526	(44,230)
Net increase in the net assets available for benefits during the year		53,530	(48,240)

Net Assets Statement as at 31 March 2020

The accounts summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits in the future.

	Note	2018/19 £000	2019/20 £000
Investment Assets	16	1,041,927	993,832
Investment Liabilities	16	(226)	(652)
Current Assets	17	825	1,052
Current Liabilities	17	(20,624)	(20,570)
Net asset of the fund available to fund benefits at the end of the reporting period		1,021,902	973,662

Notes to the Pension Fund Accounts for the year ended 31 March 2020

1. Introduction

The Barking and Dagenham Pension Fund (“the Fund”) is part of the Local Government Pension Scheme (“LGPS”) and is administered by the London Borough of Barking and Dagenham (“LBBD”). The Council is the reporting entity for this Fund. The Fund is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

- i. The LGPS Regulations 2013 (as amended)
- ii. The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- iii. The LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is operated as a funded, defined benefit scheme which provides for the payment of benefits to former employees of LBBD and those bodies admitted to the Fund, referred to as “members”. The benefits include not only retirement pensions, but also widow’s pensions, death grants and lump sum payments in certain circumstances. The Fund is financed by contributions from members, employers and from interest and dividends on the Fund’s investments.

The objective of the financial statements is to provide information about the funds financial position, performance and financial adaptability and show the results of the Council’s stewardship in managing the resources entrusted to it and for the assets at the period end.

The Fund is overseen by the Fund’s Pension Committee, which is a Committee of LBBD. 19/20 started off with strong positive returns for the first three quarters, but uncertainty caused by Covid-19 resulted in a market correction in the fourth quarter. As a result, the Fund’s return for the year was a negative, with an investment return, net of fund manager fees and custodian costs, of -5.1%, which was 4.6% lower than its benchmark of -0.5%. Over three years the funds annualised return was 1.7%, which is 2.4% below the Fund’s benchmark return of 4.1%. Equities were the main detractors of performance, with UBS Equities and Kempen providing a return of -9.4% and -22.3% for the year. Passive bonds, infrastructure and Alternatives provided positive returns of 10.0%, 10.8% and 2.2% respectively. The remaining managers provided a small negative return ranging from 1.3% for the Baillie Gifford to 2.7% for the fund’s property manager, Schroders.

Two new employers were admitted to the Fund in 2019/20, including, Aspens 2 and Caterlink. During the year, the total number of active employers within the Fund was 39.

2. Format of the Pension Fund Statement of Accounts

The day to day administration of the Fund and the operation of the management arrangements and investment portfolio are delegated to the Chief Operating Officer.

The following description of the Fund is a summary only. For more details, reference should be made to the Fund’s Annual Report for 2019/20, which can be obtained from the Council’s website: <http://www.lbbdpensionfund.org>.

The statutory powers that underpin the scheme are the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) regulations, which can be found at: www.legislation.gov.uk.

Membership

All local government employees (except casual employees and teachers) are automatically enrolled into the Scheme. However, membership of the LGPS is voluntary and employees are free to choose whether to opt out, remain in the Scheme or make their own personal arrangements outside the Scheme. Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund; and
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

A list of the Fund's scheduled and admitted employers are provided below. Not Active employers do not have any current members but have either deferred or pensioners. The obligations and assets for these employers have been absorbed by the Council.

Scheduled Bodies	Admitted Bodies
LBBD Barking College Dorothy Barley Academy Eastbury Academy Elutec Goresbrook Free School Greatfields Free School James Campbell Primary Partnerships Learning Pathways Riverside Bridge Riverside Free School Riverside School St Margarets St Joseph's Dagenham St Joseph's Barking St Theresa's Dagenham Sydney Russell Academy Thames View Infants Academy Thames View Junior Academy University of East London Warren Academy	Aspens Aspens 2 B&D Citizen's Advice Bureau BD Corporate Cleaning BD Schools Improvement Partnership BD Together Be First BD Management Services Caterlink Cleantech Elevate East London LLP Laing O'Rourke Lewis and Graves Schools Offices Services Ltd Sports Leisure Management The Broadway Theatre Town and Country Cleaners
Not Active Magistrates Court (not active)	Not Active Abbeyfield Barking Society (not active) Age UK (not active) Council for Voluntary Service (not active) Disablement Assoc. of B&D (not active) East London E-Learning (not active) London Riverside (not active) May Gurney (not active) RM Education (not active)

A breakdown of the Fund's member by employer type and by member type is included in the table below:

	2018/19	2019/20
Number of Employers with active members	33	39
Number of Employees in scheme		
London Borough of Barking and Dagenham		
Active members	4,298	4,288
Pensioners	4,687	4,669
Deferred pensioners	4,731	4,841
Undecided and other members	231	218
	<u>13,947</u>	<u>14,016</u>
Admitted and Scheduled Bodies		
Active members	1,978	1,693
Pensioners	965	1,014
Deferred pensioners	1,466	1,620
Undecided and other members	62	187
	<u>4,471</u>	<u>4,514</u>

a) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service as summarised below:

	Service pre-1 April 2008	Service post 31 March 2008
Pension:	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum:	Automatic lump sum of 3 x salary. In addition part of annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

The benefits payable in respect of service from 1 April 2014 are based on career average devalued earnings and the number of years of eligible service. The accrual rate is 1/49 and the benefits are index-linked to keep pace with inflation. From 1 April 2011, the method of indexation changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI).

3. Basis of preparation

The accounts summarise the transactions and net assets for the Fund's transactions for the 2019/20 financial year and its position as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom 2019/20. The financial statements do not reflect any liabilities to pay pension or other benefits occurring after 31 March 2020. Such items are reported separately in the Actuary's Report provided in Note 20 to the Fund's accounts.

The accounts have been prepared on an accruals basis (that is income and expenditure are recognised as earned or incurred, not as received and paid) except in the case of transfer values which are included in the accounts on a cash basis. The Pension Fund Accounts have been prepared on a going concern basis.

3.1 Contributions (see Note 8)

Primary contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate.

Secondary contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date.

Employer's augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset.

3.2 Transfers to and from other schemes (see Note 9)

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Transfer Values to/from other funds, for individuals, are included in the accounts based on the actual amounts received and paid in the year.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

3.3 Investment income (see Note 13)

- i) Interest income - Interest income is recognised in the Fund account as it accrues. Interest from financial assets that are not carried at fair value through profit and loss, i.e. loans and receivables, are calculated using the effective interest basis.
- ii) Dividend income - Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.
- iii) Movement in the net market value of investments - Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/loss during the year.

3.4 Net Assets Statement at market value is produced on the following basis (see note 14)

- i) Quoted investments are valued at bid price at the close of business on 31 March 2020;
- ii) Unquoted investments are based on market value by the fund managers at year end in accordance with accepted guidelines;
- iii) Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax;

- iv) Investments held in foreign currencies have been valued in sterling at the closing rate ruling on 31 March 2020. All foreign currency transactions are translated into sterling at exchange rates ruling at the closing rate of exchange; and
- v) Limited partnerships are valued at fair value on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

3.5 Management expenses (see note 12)

Administration Expenses

All administration expenses are accounted for on an accrual basis. Staff costs associated with the Fund are charged to the Fund, with management, accommodation and other overheads apportioned in accordance with LBBD's policy.

Investment management expenses

All investment management expenses are accounted for on an accrual basis.

External manager fees, including custodian fees, are agreed in the respective mandates governing their appointments, which are broadly based on the market value of the Fund's investments under their management. Therefore, investment management fees increase / decrease as the value of these investments change.

The Fund does not include a performance related fees element in any of their contracts. Where it has not been possible to confirm the investment management fee owed by the balance sheet date, an estimate based on the market value has been used.

Most the Fund's holdings are invested in pooled funds which include investment management expenses, including actuarial, trading costs and fund manager fees, within the pricing mechanism.

The Council has made a prepayment of employer pension contributions to the Fund, totalling £40m. The interest costs associated with this prepayment are included as an investment management expense.

3.6 Taxation

The Fund is a registered public-sector service scheme under section 1(1) of schedule 36 of the Finance act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceed of investments sold.

Taxation agreements exist between Britain and other countries whereby all or a proportion of the tax deducted locally from investment income may be reclaimed. Non-recoverable deductions are classified as withholding tax.

Value Added Tax is recoverable on all Fund activities by the administering authority.

3.7 Foreign currency transactions

Dividends, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts.

3.8 Cash and cash equivalents

Cash comprises cash in-hand and on-demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

3.9 Present Value of Liabilities

These accounts do not include the Fund's liabilities to pay pensions and other benefits, in the future, to all the present contributors to the Fund. These liabilities are taken account of in the periodic actuarial valuations of the Fund and are reflected in the levels of employers' contributions determined at these valuations.

3.10 Actuarial present value of promised retirement benefits (see note 20)

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement

3.11 Contingent assets and liabilities

Contingent assets and liabilities are not recognised in the Fund's Balance Sheet but are disclosed as a note to the accounts. They arise as a result of past events but are only confirmed by the occurrence of one or more uncertain future events which are not entirely within the Fund's control.

Contingent liabilities arise from a present obligation arising from past events but only where it is not probable that a transfer of economic benefits will be required to settle the obligation or where the amount of the obligation cannot be measured with sufficient reliability.

4. Critical Judgements in applying accounting policies

In applying the accounting policies set out in Note 3, the Fund has had to make certain judgements about complex transactions or those involving uncertainty about future events.

A critical judgement made within the accounts is for the Pension Fund liability, which is calculated every three years by the appointed Actuary and is included in Note 20 but is not included in the net asset statement. The methodology used is in line with accepted guidelines. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in Note 20. This estimate is subject to significant variances based on changes to the underlying assumptions.

Unquoted investments

Determining the fair value of unquoted investments (unquoted equity investments and hedge fund or funds) can be subjective. They are inherently based on forward-looking estimates and judgements involving many factors including the impact of market volatility following the COVID-19 outbreak. Unquoted investments are valued by the investment managers. The total financial instruments held by the Fund at **Level 3 were £217.9m.**

5. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into consideration historical experience, current trends and other relevant factors. However, as balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. There were no items in the Statement of Accounts 2019/20 for which there is a significant risk of material adjustment in the forthcoming financial years.

All investments are measured at fair value and by necessity, unquoted investments involve a degree of estimation. Notes 14 and 21 provide information about valuation methodology and the assumptions made in deriving the estimates.

6. Additional Voluntary Contributions (AVC)

Additional Voluntary Contributions (AVCs) administered by the Prudential, made by LBBB employees during the year amounted to **£232k** (2018/19 £267k). In accordance with Regulation 4(2) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid and the assets of these investments are not included in the Pension Fund Accounts.

AVCs were valued by Prudential at a market value of **£3.9m** (2018/19 £4.0m).

7. Recharges from the General Fund

The LGPS (Management and Investment of Funds) Regulations 2016 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs have been charged to the Fund on the basis of actual time spent on Pension Fund business. Costs incurred in the administration and the oversight and governance of the Fund are included in Note 12.

8. Contributions

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007, ranging from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employee contributions are matched by employer contributions, which are set based on triennial actuarial funding valuations.

Currently employer contribution rates range from 15.6% to 43.0%.

Pension strain contributions are accounted for in the period in which the liability arises. Any amounts due in year but unpaid will be classed as a current financial asset.

The Council uses a mechanism to stabilise the contribution rates. This was agreed following the actuary, Hymans Robertson, completing a stochastic modelling of the long-term funding position. Eligibility for stabilisation is dependent on reasonable consistency in an employer's membership profile. The primary contribution rate for the financial year ending 31 March 2020 was 23.5%.

Contributions shown in the revenue statement may be categorised as follows:

Contributions	2018/19	2019/20
Members normal contributions	£000	£000
Council	6,710	6,829
Admitted bodies	959	924
Scheduled bodies	1,913	1,909
Total contributions from members	<u>9,582</u>	<u>9,662</u>
Employers contributions		
Council - Normal	17,878	18,511
Council - Deficit Recovery	5,726	5,928
Admitted bodies - Normal	3,750	3,535
Admitted bodies- Deficit Recovery	23	30
Scheduled bodies - Normal	5,235	5,203
Scheduled bodies- Deficit Recovery	1,948	1,845
Pension Strain	1,428	939
Total contributions from employers	<u>35,988</u>	<u>35,991</u>
Total Contributions	<u>45,570</u>	<u>45,653</u>

9. Transfers in from other pension funds

	2018/19	2019/20
	£000	£000
Individual Transfers	<u>2,372</u>	<u>4,588</u>
	<u>2,372</u>	<u>4,588</u>

10. Benefits

Benefits payable and refunds of contributions have been brought into the accounts based on all valid claims approved during the year.

	2018/19				2019/20			
	Council	Admitted Bodies	Scheduled Bodies	Total	Council	Admitted Bodies	Scheduled Bodies	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Pensions	26,913	462	5,678	33,053	28,200	538	6,061	34,799
Lump sums	4,934	226	1,216	6,376	4,996	244	776	6,016
Death grants	599	1	187	787	437	19	36	492
	<u>32,446</u>	<u>689</u>	<u>7,081</u>	<u>40,216</u>	<u>33,633</u>	<u>801</u>	<u>6,873</u>	<u>41,307</u>

11. Payments to and on account of leavers

	2018/19	2019/20
	£000	£000
Individual Transfers	2,439	6,007
Refunds	326	582
	<u>2,765</u>	<u>6,589</u>

12. Management Expenses

	2018/19	2019/20
	£000	£000
Administration and Processing	773	721
Management Fees	3,587	3,991
Custody Fees	25	58
Oversight and Governance Fees	239	237
Other Costs	1,333	1,348
	<u>5,957</u>	<u>6,355</u>

13. Investment Income

	2018/19 £000	2019/20 £000
Fixed Interest Securities	421	438
Equity Dividends	6,252	11,226
Pooled Property Income	2,759	2,952
Interest - Manager's Cash	184	49
Interest - LBBB balance	120	23
Other Income	23	3
	<u>9,759</u>	<u>14,691</u>

14. Investments

The movement in the opening and closing value of investments during the year, together with related direct transaction costs were as follows:

	Value 31/03/2019 £000	Purchases £000	Sales £000	Change in Fair Value £000	Cash Movement £000	Value 31/03/2020 £000
Pooled Unit Trusts	825,298	6,477	-	(63,667)	-	768,108
Property Unit Trusts	64,151	-	-	(4,166)	-	59,985
Pooled Alternatives	68,781	36,187	(44,827)	4,828	-	64,969
Infrastructure	74,419	10,557	-	7,937	-	92,913
Other Investments	647	-	(492)	(5)	-	150
Derivative Contracts						
Futures	(226)	3,728	(896)	(3,258)	-	(652)
Cash Deposits						
Custodian	4,089	(23,449)	16,950	(590)	11,986	8,986
In-House	4,532	-	-	-	(15,120)	(10,588)
Pending Trade Sales	-	-	-	-	9,303	9,303
Other Investments	10	-	-	-	(1)	9
Total	1,041,701	33,500	(29,265)	(58,921)	6,168	993,183

	Value 31/03/2018 £000	Purchases £000	Sales £000	Change in Fair Value £000	Cash Movement £000	Value 31/03/2019 £000
Pooled Unit Trusts	778,268	5,649	-	41,381	-	825,298
Property Unit Trusts	63,662	39,570	(39,571)	490	-	64,151
Pooled Alternatives	55,488	26,209	(18,456)	5,540	-	68,781
Infrastructure	67,077	7,207	-	135	-	74,419
Other Investments	802	-	-	(155)	-	647
Derivative Contracts						
Futures	400	233,930	(231,908)	(2,648)	-	(226)
Cash Deposits						
Custodian	1,073	287,587	(284,595)	24	-	4,089
In-House	632	-	-	-	3,900	4,532
Total	967,402	600,152	(574,530)	44,767	3,900	1,041,691

The change in fair value of investments during the year comprises all increases and decreases in the value of investments held at any time during the year, including profits and losses realised on sales of investment and changes in the sterling value of assets caused by changes in exchange rates. In the case of pooled investment vehicles changes in market value also includes income, net of withholding tax, which is reinvested in the Fund.

The cost of purchases and the sales proceeds are inclusive of transaction costs, such as broker fees and taxes. In addition to transaction costs, indirect costs are incurred through the bid offer spread on investments within pooled investment vehicles. The amount of indirect cost is not separately provided to the Fund. The Fund employs specialist investment managers with mandates corresponding to the principle asset classes. A list of the Fund's Fund Manager, their mandate and the asset type is outlined in the table below:

Investment Manager	Mandate	Asset Type
Aberdeen Asset Management	Active	Diversified Alternatives
Mellon Corporation	Active	Global Credit
London CIV: Baillie Gifford	Active	Global Equity (Pooled)
London CIV: Pyrford	Active	Absolute Return
London CIV: Newton	Active	Absolute Return
London CIV: Other	Passive	None
BlackRock	Active	Property Investments (UK)
Hermes	Active	Infrastructure (LLP)
Kempen	Active	Global Equity (Pooled)
Prudential/M&G	Active	Alternatives - UK Companies Financing
RREEF	Active	Property Investments (UK)
Schroders	Active	Property Investments (UK Fund of Funds)
UBS	Passive	Global Equity (Pooled)
UBS	Passive	All Share Fixed Income (Pooled)

The value of the Fund, by manager, as at 31 March 2020 was as follows:

Fund by Investment Manager	2018/19		2019/20	
	£000	%	£000	%
Aberdeen Asset Management	68,555	6.6	64,318	6.5%
BlackRock	39,651	3.8	37,066	3.7%
Hermes	74,419	7.1	92,913	9.4%
Kempen	165,846	15.9	129,412	13.0%
Other Cash Balances	8,621	0.8	(1,602)	(0.2)%
Prudential/M&G	498	0.0	0	0.0%
RREEF	338	0.0	343	0.0%
Schroders	24,162	2.3	22,576	2.3%
Mellon Corporation	63,364	6.1	62,544	6.3%
UBS Passive Bonds	37,324	3.6	41,043	4.1%
UBS Passive Equity	183,816	17.6	166,591	16.8%
London CIV	150	0.0	150	0.0%
London CIV - Baillie Gifford	202,492	19.4	199,910	20.1%
London CIV – Pyrford	103,188	9.9	100,852	10.2%
London CIV - Newton	69,267	6.6	67,755	6.8%
Pending Trade Sales	-	-	9,303	0.9%
Other Investments – Tax Recoverable	10	-	9	0.0%
Total	1,041,701	100.0	993,183	100.0%

15. Cash

The cash balance held at 31 March 2020 is made up as follows:

Cash balances held by Investment Managers	2018/19 £000	2019/20 £000
Aberdeen Asset Management	1,541	7,776
Prudential / M&G	184	505
Schroders	862	240
BlackRock	1,499	463
Other balances	3	-
In-house Cash	4,532	(10,587)
Total Cash	8,621	(1,062)

16. Securities

Investment Assets	2018/19 £000's	2019/20 £000's
Pooled funds - UK		
UK fixed Income Unit Trust	37,324	41,043
UK Equity Unit Trust	386,458	366,650
UK Absolute Return	172,455	168,606
UK Property Unit Trust	24,500	22,919
UK Unit Trust	498	-
Pooled funds - Overseas		
Overseas Fixed Income Unit Trust	63,364	62,544
Overseas Equity Unit Trust	165,846	129,412
Overseas Property Unit Trust	39,651	37,066
Other Investment - Infrastructure	74,419	92,913
Other Investment - Private Equity	34,714	34,436
Other Investment - Hedge Funds	34,067	30,533
Other Investment – Tax Recoverable	10	9
Cash	8,621	(1,602)
Pending Trade Sales		9,303
Total Investment Assets	1,041,927	993,832
Investment Liabilities		
Futures	(226)	(652)
Total Investment Liabilities	(226)	(652)
Current Assets: Debtors	825	1,052
Current Liabilities: Creditors	(20,624)	(20,570)
Total Net Assets	1,021,902	973,662

17. Debtors and Creditors

The following amounts were debtors or creditors for the Fund at 31 March 2020:

Debtors	2018/19 £000	2019/20 £000
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Other Investment Balances

Tax recoverable	10	0
Pending Trade Sales		9,313

Current Assets

Other local authorities	347	584
Other entities and individuals	478	468
Total Current Assets	825	1,052
Total Debtors	835	10,365

Creditors

Investment Liabilities	£000	£000
Futures	226	652

Current Liabilities

Other local authorities	382	376
LBBB Prepayment	20,000	20,000
Other entities and individuals	242	193
Total Current Liabilities	20,624	20,570
Total Creditors	20,850	21,222

18. Holdings

All holdings within the Fund as at 31 March 2020 were in pooled funds or Limited Liability Partnerships (LLP), with no direct holdings over 5% of the net assets of the scheme. As at 31 March 2020 the following pooled funds and LLPs were over 5% of the scheme's net assets:

Security	Market Value as at 31 March 2020	% of Total Fund
	£000	%
London CIV - Baillie Gifford	199,910	20.1%
UBS Passive Equity	166,591	16.8%
Kempen	129,412	13.0%
London CIV - Pyrford	100,852	10.2%
Hermes	92,913	9.4%
London CIV - Newton	67,755	6.8%
Mellon Corporation	62,544	6.3%

19. Investment Strategy Statement

An Investment Strategy Statement was agreed by the Council's Investment Committee on 15 March 2018 and is updated periodically to reflect changes made in Investment Management arrangements. The nature and extent of risk arising from financial instruments and how the Fund manages those risks is included in the Investment Strategy Statement. Copies can be obtained from the Council's Pension website: <http://www.lbbdpensionfund.org>

20. Actuarial position**Actuarial assumptions**

The 2019 triennial review of the Fund took place as at 31 March 2019 and the salient features of that review were as follows:

- The funding target is to achieve a funding level of at least 100% over a specific period;
- Deficit recovery period remained 17 years in 2019;
- The key financial assumptions adopted at this valuation are:
 - Future levels of price inflation are based on the Consumer Price Index (CPI);
 - The resulting discount rate of 4.0% (4.1% as at 31 March 2016).
- Market value of the scheme's assets at the date of the valuation were £1,022 million;
- The past service liabilities at the rate of the valuation were £1,141 Million;
- The resulting funding level was 90% (77% as at 31 March 2016); and
- The use of an appropriate asset outperformance assumption is based on available evidence and is a measure of the degree of prudence assumed in the funding strategy.

The valuation has made assumptions about member longevity and has used the following average future life expectancies for pensioners aged 65 at the valuation date:

Longevity Assumptions	2016	2016	2019	2019
at 31 March	Male	Female	Male	Female
Average future life expectancy (in years for a pensioner)	22.0	24.7	21.3	23.4
Average future life expectancy (in years) at age 65 for non-pensioner assumed to be aged 45 at the valuation date	24.0	26.4	22.3	24.9

Some of the key financial assumptions adopted by the actuary for the valuation of members' benefits at the 2019 valuation are set out below:

Financial Assumptions (p.a.)	31 March 2016	31 March 2019
Benefit increases and CARE revaluation (CPI)	2.1%	2.3%
Salary increases	2.6%**	3.0%**

*CPI plus 0.4%

**CPI plus 0.7%

Funding level and position

The table below shows the detailed funding level for the 2019 valuation:

Employer contribution rates	As at 31 March	
	2016	2019
Primary Rate (net Employer Future Service Cost)	18.2%	19.8%
Secondary Rate (Past Service Adjustment – 17-year spread)	6.8%	3.0%
Total Contribution Rate	25.0%	22.8%

The Primary rate above includes an allowance for administration expenses of 0.5% of pay. The employee average contribution rate is 6.6% of pay. The table below shows the funding position as at 31 March 2019.

	As at 31 March 2016	As at 31 March 2019
	£m	£m
Past Service Funding Position at 31 March		
Past Service Liabilities		
Employees	(324)	(323)
Deferred Pensioners	(221)	(287)
Pensioners	(456)	(531)
	(1,001)	(1,141)
Market Value of Assets	772	1,022
Funding Deficit	(228)	(119)
Funding Level	77%	90%

Present value of funded obligation

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 Employee Benefits (IAS 19) assumptions, is estimated to be **£1,501m** as at 31 March 2020 (31 March 2019: £1,676m). This figure is used for statutory accounting purposes by the Pension Fund and complies with the requirements of IAS 26 Accounting and Reporting by Retirement Benefit Plans. The assumptions underlying the figure are as per the IAS 19 assumptions above.

The figure is prepared for the purposes of IAS 26 and has no validity in other circumstances. It is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund, which is carried out on a triennial basis.

The LGPS benefit structure is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. Additional prudence has been built into funding plans to allow for the McCloud ruling so the gross pension liability of £1,501m takes this into account.

As a result of the Government's introduction of a single-tier state pension (STP), there is currently uncertainty around who funds certain elements of increases on Guaranteed Minimum Pensions (GMP) for members reaching State Pension Age after 6 April 2016. As part of the introduction of STP, the Government confirmed that public service pension schemes, including the LGPS, will be responsible for funding all increases on GMP as an 'interim solution' so this has been factored into the liabilities.

Total contribution rate

The table below shows the minimum total contribution rates, expressed as a percentage of pensionable pay, which was applied to the 2019/20 accounting period:

Scheduled Bodies	Rate %	Admitted Bodies	Rate %
Barking College	25.3	Aspens	31.3
Dorothy Barely Academy	18.7	Aspens 2	36.1
Eastbury Academy	23.6	B&D Citizen's Advice Bureau	43.0
Elutec	20.0	BD Corporate Cleaning	27.8
Goresbrook Free School	15.6	BD Schools Improvement Partnership	27.7
Greatfields Free School	23.5	BD Together	27.8
James Cambell Academy	22.8	BD Management Services	27.8
LBBB	23.5	Be First	27.0
Partnership Learning	21.9	Cleantech	28.1
Pathways	23.7	Caterlink	34.0
Riverside Bridge	17.7	Elevate East London LLP	21.3
Riverside Free School	17.6	Laing O'Rourke	28.1
Riverside School	17.3	Lewis and Graves	23.5
St Joseph's Dagenham	26.0	Schools Offices Services Ltd	24.4
St Joseph's Barking	24.6	Sports Leisure Management	22.2
St Margarets Academy	23.0	The Broadway Theatre	31.1
St Theresa's Dagenham	28.7	Town and Country Cleaners	24.7
Sydney Russell	20.5		
Thames View Infants Academy	18.1		
Thames View Junior Academy	20.0		
University of East London	28.6		
Warren Academy	24.4		

The financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

21. Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. There were no transfers between levels during 2019/20.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown as bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange. The total financial instruments held by the Fund at **Level 1 were £766.7m**

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques use inputs that are based significantly on observable market data. Pending trade sales from the funds pooled alternative manager has been classified as Level 2. The total financial instruments held by the fund at **Level 2 were £8.7m**.

Level 3

Financial instruments at Level 3 are those where at least one input could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund or funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The Fund's infrastructure manager has been classified as level 3 as valuations are based on a variety of assumptions and the assets held do not have a readily identifiable market.

The values of the investment in infrastructure is based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value. The total financial instruments held by the Fund at **Level 3 were £217.9m**.

Asset Valuation Hierarchy and Basis of Valuation

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs
Fixed Income Unit Trusts	Level 1	Published bid market price ruling on the final day of the accounting period	Not required
Equity Unit Trust	Level 1	Market value based on current yields	Not required
Absolute Return Funds	Level 1	Closing bid value on published exchanges	Not required
Property Unit Trust	Level 3	Closing single price where single price published	NAV-based pricing set on a forward pricing basis
Other Investment - Infrastructure	Level 3	Enterprise value (EV) / Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA) as their valuation methodology, using a basket of public and transaction comparables.	EV / EBITDA
Other Investment - Private Equity	Level 3	Enterprise value (EV) / Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA) as their valuation methodology, using a basket of public and transaction comparables.	EV / EBITDA
Other Investment - Hedge Funds	Level 3	Underlying assets are publicly traded securities (equities, bonds) where pricing is readily available from providers such as Bloomberg or Reuters.	Valuations are affected by any changes to the value of the financial instrument being hedged against.

Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

Description of asset	Assessed valuation range	Value at 31 March 2020	Value on Increase	Value on Decrease
	%	£000s	£000s	£000s
Property Unit Trust	10	59,985	65,983	53,986
Other Investment - Infrastructure	15	92,913	106,850	78,976
Other Investment - Private Equity	15	34,436	39,601	29,270
Other Investment - Hedge Funds	15	30,533	35,113	25,953
		217,867	247,547	188,185

The potential movement of 10% for Property Unit Trusts represents a combination of the following factors, which could all move independently in different directions:

- Rental increases +/- 4%
- Vacancy levels +/- 2%
- Market prices +/- 3%

— Discount rates +/-1%

All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 15% is caused by how this profitability is measured since different methods (listed in the first table of Note 21 above) produce different price results

22. Events after the Reporting Period

McCloud Ruling

In December 2018 the Court of Appeal ruled that transitional provisions which were put in place under reforms to both the Judges' and Firefighters' Pension Schemes discriminated against a group of members on the grounds of age. Although this ruling did not relate directly to the LGPS, the LGPS also put in place protections for older members as part of the reforms which came into effect from 2014. The UK Government confirmed on 15 July 2019 that, alongside the process to remedy the Fire and Judiciary schemes, it will also bring forward proposals to address the issue for the other public service pension schemes, including the LGPS. It is unclear at this stage what the exact extent will be of the required changes to the LGPS.

Covid-19

On 11th March 2020 the World Health Organisation declared a pandemic caused by the Covid-19 virus. Measures taken by governments around the world to contain the spread of Covid-19, resulted in a significant drop-in economic activity and this then led to big falls in global markets and market volatility. Governments and Central Banks around the world introduced fiscal and monetary action to stabilise economies leading to a sharp increase in government borrowing.

Subsequently markets have shown resilience, with equities rebounding back to pre-pandemic levels, but there remains a number of uncertainties around how sustained the recovery will be. The sensitivity of the Funds' investments to market movements is shown in note 27. The Fund has a long-term time horizon and its strategic asset allocation reflects this.

Following the 2019 triennial valuation of the Fund, the Pensions Committee will review the investment strategy in 2020/21, which will take into account the impact of Covid-19 and other macro risks.

Employer contributions have not been revisited but the situation is being kept under review and all employers will be informed of any potential implications.

23. Related parties

The Fund is a related party of the Council as the following transactions are controlled by the Council. Pension administration and investment management costs of **£642.3k** (2018/19: £751.1k) are charged by the Council.

24. Contingent Asset and liabilities

As at 31 March 2020 there were no contingent assets or liabilities.

25. Compensation of key management personnel

Compensation of key management personnel, including members of the Pension Committee, the Chief Operating Officer, the Director of Finance, the Investment Fund Manager, Pension Fund Accountant and Senior Treasury Accountant, charged to the Fund are provided below:

	2018/19 £000	2019/20 £000
Short Term employee benefits	231.7	189.1
Total	231.7	189.1

26. Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period. The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Financial assets	Designated as fair value through profit and loss	Loans and receiva bles	Financial liabilities at amortised cost	Designated as fair value through profit and loss	Loans and receiva bles	Financial liabilities at amortised cost
	2018/19 £000	2019/20 £000	£000	2019/20 £000	2019/20 £000	£000
Pooled Fixed Income Unit Trusts	100,688	-	-	103,587	-	-
Equities	552,304	-	-	496,062	-	-
Property Unit Trusts	64,151	-	-	59,985	-	-
Cash	-	8,620	-	-	(1,602)	-
Other investments	315,938	-	-	325,845	-	-
Pending Trade Sales	-	-	-	-	9,303	-
Total Financial Assets	1,033,081	8,620	-	985,479	7,701	-
Financial Assets - Debtors			825			1,052
Financial liabilities - Creditors			(20,624)			(20,570)
Total Net Assets	1,033,081	8,620	(19,799)	985,479	7,701	(19,518)

27. Nature and extent of risks arising from Financial Instruments

The Fund activities expose it to a variety of financial risks, including:

- **Market risk** – the possibility that financial loss might arise from the Fund's as a result of changes in such measures as interest rates or stock market movements;
- **Interest rate risk** – the risk that interest rates may rise/fall above expectations;
- **Credit risk** - the risk that other parties may fail to pay amounts due;
- **Liquidity risk** – the risk that the Fund may not have funds available to meet its commitments to make payment; and
- **Refinancing risk** – the risk that the Fund might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level.

In additions, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Fund's Committee. Risk management policies have been established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Risk and risk management

Market risk

Market risk is the risk of loss from fluctuations in equity prices, from interest and foreign exchange rates and from credit spreads. The Fund is exposed to market risk predominantly from its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. The Fund manages these risks in two ways:

- Fund's exposure to market risk is monitored by reviewing the Fund's asset allocation; and
- Specific risk exposure is limited by applying maximum exposures to individual investments.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

Other price risk - sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. Riskier assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome depends largely on Funds' asset allocations.

The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix. The Council has determined that the following movements in market price risk are reasonably possible for the 2019/20 reporting period.

Asset Class	One Year Expected Volatility (%)	Asset Class	One Year Expected Volatility (%)
Global Pooled Inc UK	13.1	Alternatives	6.6
Total Bonds	5.2	Cash	1.0
Property	2.3		

The sum of the monetary impact for each asset class will equal the total Fund impact as no allowance has been made for diversification of the one-year standard deviation for a single currency. Had the market price of the Fund investments increased or decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2020 £000	% Change	Value on Increase £000	Value on Decrease £000
Pooled Fixed Interest Securities	103,588	5.2	108,956	98,220
Pooled Equity Investments	496,063	13.1	560,951	431,174
Pooled Property	59,985	2.3	61,342	58,628
Pooled Absolute Return	168,606	6.6	179,671	157,542
Infrastructure	92,913	6.6	99,011	86,816
Other Investments	64,326	6.6	68,547	60,105
Cash	(1,602)	1.0	(1,617)	(1,586)
Pending Trade Sales	9,303	6.6	9,913	8,693
Total	993,182		1,086,774	899,592

Asset Type	Value as at 31 March 2019 £000	% Change	Value on Increase £000	Value on Decrease £000
Pooled Fixed Interest Securities	100,688	4.52	105,240	96,137
Pooled Equity Investments	552,304	10.01	607,590	497,018
Pooled Property	64,150	2.32	65,639	62,663
Pooled Absolute Return	172,455	3.92	179,215	165,695
Infrastructure	74,419	3.92	77,336	71,502
Other Investments	69,064	3.92	71,771	66,356
Cash	8,621	0.01	8,623	8,619
Total	1,041,701		1,115,412	967,990

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest movements as at 31 March 2019 and 31 March 2020 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March	As at 31 March
	2019	2020
	£000	£000
Cash and cash equivalent	8,621	(1,602)
Fixed interest securities	100,688	103,587
Total	109,309	101,985

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100-basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The Fund's investment advisor has advised that long-term average rates are expected to move less than 100 BPS from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset type	Carrying amount as at 31 March 2020	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and cash equivalent	(1,602)	(16)	16
Fixed interest securities	103,587	1,036	(1,036)
Total	101,985	1,020	(1,020)

Asset type	Carrying amount as at 31 March 2019	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
Cash and cash equivalent	8,621	86	(86)
Fixed interest securities	100,688	1,007	(1,007)
Total	109,309	1,093	(1,093)

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (sterling). The Fund holds both monetary and non-monetary assets denominated in currencies other than sterling.

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The Pension Committee Members are aware of the cash flow pressures that are affecting the Fund. These include the potential for a reduction in Fund current members from the significant savings the LBBDD needs to make in the coming years and from an increase in pension payments due to increased pensioner numbers and as a result of the pricing index exceeding salary increases. Members receive a quarterly report on the Fund's cash flow and have agreed to utilise distributions from property and infrastructure to fund future investments and to cover any cash flow shortfalls.

Where there is a long-term shortfall in net income into the Fund, investment income will be used to cover the shortfall. All financial liabilities at 31 March 2020 are due within one year.

Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of the Fund's financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high-quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Fund's internally managed cash is invested by the Council's treasury team. Deposits are not made with banks and financial institutions unless they meet the council's credit criteria. The council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. In addition, the council invests an agreed percentage of its funds in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency.

28. London Borough of Barking and Dagenham (LBBDD)

The Fund is administered by LBBDD. Consequently, there is a strong relationship between the Council and the Fund.

The Council incurred administration and investment management costs of **£642.3k** (2018/19 £751.1k) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed **£24.4m** to the Fund in 2019/20 (2018/19 £23.6m). All monies owing to and due from the Fund were paid in year.

In 2019/20 the Council prepaid two-years' worth of employer contributions, totalling **£40.0m**. As at 31 March 2020 one-year worth of prepaid employer's contribution remained, totalling **£20.0m**, with the Fund and this has been included as a prepayment in the Fund's debtors.

Appendix 2: Governance Compliance Statement

In accordance with the Local Government Pension Scheme Regulations 2007, Local Government Pension Scheme administering authorities are now required to prepare a Governance Compliance Statement. This statement sets out how administering authorities comply with the best practice guidance as issued by the Secretary of State for Communities and Local Government.

The Governance and Compliance Statement sets out best practice guidance and how the London Borough of Barking and Dagenham (the Council) comply with this guidance.

Structure

- The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council;
- Representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee;
- Where a secondary committee or Committee has been established, the structure ensures effective communication across both levels;
- Where a secondary committee or Committee has been established, at least one seat on the main Committee is allocated for a member from the secondary committee or Committee.

The Council delegates the management of the Fund to the Pension Committee. The Committee meets on a quarterly basis.

The Committee comprises seven Councillors. The Committee also includes representation from the General and Municipal Boilermakers Union (GMB), from an employee representative and from an employer within the Fund. Admitted bodies are not represented on the Committee but are consulted on a regular basis. The Committee reviews its terms of reference on a regular basis, so this position will be reviewed in the near future.

The Pension Committee terms of reference are set out below and the Committee is responsible for monitoring all aspects relating to the investment of the assets of the Fund as follows: -

- The Committee will formally review the Fund's asset allocation at least annually, taking account of any changes in the profile of Fund liabilities and any guidance from the Committee regarding tolerance of risk. They will recommend changes in asset allocation to the Executive;
- The Committee will consider and monitor the Quarterly Reports produced by their Investment Manager. In addition to managers' portfolio and performance reporting, the Committee will also receive and review information from the managers on risk analysis, transaction costs, and details of corporate governance (including SRI, voting activity and engagement with management);
- The Committee will formally review annually the manager's mandate, and its adherence to its expected investment process and style. The Committee will ensure that the explicit written mandate of each of the Fund's managers is consistent with the Fund's overall objective and is appropriately defined in terms of performance target, risk parameters and timescale;
- The Committee will consider the need for any changes to the Fund's investment manager arrangements (e.g. replacement, addition, termination) at least annually.
- In the event of a proposed change of managers, the Committee will evaluate the credentials of potential managers;
- The Committee will consider the Fund's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism;
- The Committee will review the Fund's AVC arrangements annually. If they consider a change is appropriate, they will make recommendations to the Executive;
- The Committee will monitor the investment advice from their investment consultant and investment services obtained from other providers (e.g. custodian) at least annually.

- The Committee will be responsible for the appointment and termination of providers;
- The Committee will conduct and conclude the negotiation of formal agreements with managers, custodians and other investment service providers;
- In order to fulfil their roles, the members of the Committee will be provided with appropriate training, initially and on an ongoing basis;
- The Committee is able to take such professional advice as it considers necessary;
- The Committee will keep Minutes and other appropriate records of its proceedings, and circulate these Minutes to the Executive;
- The Committee may also carry out any additional tasks delegated to it by the Borough Council.

The Committee currently consists of:

Chair	Councillor Dave Miles
Deputy Chair	Councillor Giasuddin Miah
	Councillor Sade Bright
	Councillor Amardeep Singh Jamu
	Councillor Kashif Haroon
	Councillor Tony Ramsay
	Councillor Foyzur Rahman

Any changes to the membership of the Committee require the approval of the Executive.

Membership of the Committee consists of a minimum of two Members with a quorum of two Members. All Committee members are expected to have or, for new members, to develop sufficient expertise in investment matters to be able to conduct their Committee responsibilities and to interpret the advice which they receive.

Representation:

All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:

- Employing authorities;
- Scheme members;
- Independent professional observers; and
- Expert advisors.

Where lay members sit on the main or secondary Committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision-making process, with or without voting rights.

Admitted bodies are not currently represented at Pension Committee meetings. Professional advice is offered to the Pension Committee by the Fund's investment advisor, Aon Hewitt, and by the Chief Financial Officer for the Council.

The Pension Committee regularly receive training on current issues from professional advisors. Comprehensive training is given to new lay members who join the Committee.

Selection and role of lay members

Committee members are made fully aware of the status, role and function they are required to perform on either a main or secondary Committee. The Pension Committee regularly receive training on current issues from professional advisors. Comprehensive training is given to new lay members who join the Pension Committee.

Voting

The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

Voting rights remain with Councillors, as the Council retains legal responsibility as administering authority. The Chairman has the casting vote. In practical terms, decisions on the Fund are usually made by consensus.

Training, Facility Time, Expenses

There is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process which applies equally to all members of committees, sub-committees advisory Committees or any other form of secondary forum.

The Council's policy on expenses applies in these instances, and there are no specific policies in place for the Pension Committee. Training is provided to all attendees of the Pension Committee as stated previously.

Meetings (frequency, quorum)

The administering authority's main committee or committees meet at least quarterly. The administering authority provides a forum outside of those arrangements by which the interests of key stakeholders can be represented. The Pension Committee sits on a quarterly basis.

Access

Subject to any rules in the Council's constitution, all members of main and secondary committees or Committees have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee. Barking and Dagenham is fully compliant with this principle.

Scope

The administering authority has taken steps to bring wider scheme issues within the scope of their governance arrangements.

The Pension Committee has a broad work programme which is regularly reviewed and updated in light of current developments. Key issues such as investment performance are considered on a quarterly basis, documents such as the statement of investment principles is reviewed at least annually, and current developments are a regular agenda item for the Committee.

Publicity

The administering authority has published details of their governance arrangements in such a way that stakeholders with an interest in the way in which a scheme is governed can express an interest in wanting to be part of those arrangements.

The Fund has a communication policy that sets out how it communicates with stakeholders. The Fund's Annual Report is reported to the Council's Executive on an annual basis. This document is published on the Council's website and is included in the Fund Annual Report.

Appendix 3:



**London Borough of Barking and Dagenham
Pension Fund**



**Funding Strategy Statement
2020**

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1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Barking and Dagenham Pension Fund (“the Fund”), which is administered by the London Borough of Barking and Dagenham, (“the Administering Authority”). It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and advisers. It is effective from 1 April 2020.

1.2 What is the London Borough of Barking and Dagenham Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Fund to make sure it:

- receives the proper amount of contributions and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions;
- transparency of processes;
- stability of employers’ contributions; and
- prudence in the funding basis.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

The FSS is a summary of the Fund’s approach to funding its liabilities, and this includes reference to the Fund’s other policies; it is not an exhaustive statement of policy on all issues.

The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement (see [Section 4](#))

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money; and
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view to ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In [Section 2](#) there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed;
- B. who is responsible for what;
- C. what issues the Fund needs to monitor, and how it manages its risks;
- D. some more details about the actuarial calculations required;
- E. the assumptions which the Fund actuary currently makes about the future; and
- F. a [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries please contact David Dickinson, Investment Fund Manager in the first instance at e-mail address david.dickinson@lbbd.gov.uk or on telephone number 0208 227 2722.

2 Basic Funding issues

(More detailed and extensive descriptions are given in [Appendix D](#)).

2.1 How does the actuary calculate the required contribution rate?

This is a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon. See [2.3](#) below, and the table in [3.3 Note \(e\)](#) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in [Appendix D](#). Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the “*Secondary rate*”. In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund’s Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report and can also be found in [Appendix G](#). Employers’ contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer’s contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However, over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before.

Participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst most members will be local authority employees (and ex-employees), most participating employers are those providing services in place of (or alongside) local authority services: academies, contractors, housing associations etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public-sector scheme (i.e. Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regs.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) regarding the terms of academies’ membership in LGPS Funds.

Designating employers - employers such as town and parish councils can participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund can set its criteria for participation by these employers and can refuse entry if the

requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the calculated contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is the period over which the funding target is achieved. Employers may be given a shorter time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is weaker then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers, it may be agreed to pool contributions, see [3.4](#).

Any costs of non-ill-health early retirements must be paid by the employer, see [3.6](#).

Costs of ill-health early retirements are covered in [3.7](#) and [3.8](#).

2.5 How is a funding level calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see [Appendix D](#), section [D5](#), for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the funding level and deficit/surplus are only measurements at a point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, funding levels and deficits are short term, high level risk measures, whereas contribution-setting is a longer-term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will

wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation ([see 3.3 Note \(b\)](#)), a longer time horizon relative to other employers, and/or a lower likelihood of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see [Appendix A](#).

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, MHCLG has not provided any details of changes as a result of the case. However, it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, has considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that will arise from the McCloud judgement are uncertain, the Fund has elected to make an explicit allowance for

the potential impact in the assessment of employer contribution rates at the 2019 valuation by increasing the likelihoods of success that are used to determine contribution rates.

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate.

The Fund has also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a consultation seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

The Fund intends to carry out its next actuarial valuation in 2022 (3 years after the 2019 valuation date) in line with MHCLG's desired approach in the consultation. The Fund has therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. The Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "bars" can be used for employers where the Fund wishes to reduce the risk to the Fund.

The Administering Authority recognises that there may occasionally be circumstances affecting individual employers that are not easily managed within the rules and policies set out in the FSS. Therefore, the Administering Authority, reserves the right to direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three-step process above. At their absolute discretion, the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required likelihood of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or

- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will result in a lower level of future investment returns on the employer's asset share. Thus, deferring contributions may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf [\(3.3\)](#) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies*
Sub-type	Council	Colleges	Academies	Open to new entrants	Closed to new entrants	(all)
Funding Basis used	Ongoing participation basis, assumes long-term Fund participation (see Appendix E)			Ongoing participation basis, but may move to “gilts exit basis” - see Note (a)		Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No
Maximum time horizon – Note (c)	17 years	17 years	17 years	Future working lifetime	Future working lifetime	Outstanding contract term
Secondary rate – Note (d)	% of payroll	% of payroll	% of payroll	% of payroll	% of payroll	% of payroll
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority			Preferred approach: contributions kept at future service rate. However, contractors may be permitted to reduce contributions by spreading the surplus over the remaining contract term	
Likelihood of achieving target – Note (e)	70%	75%	75%	70% if guaranteed, 80% otherwise	70% if guaranteed, 80% otherwise	70% if guaranteed, 80% otherwise
Phasing of contribution changes	Covered by stabilisation arrangement	At the discretion of the Administering Authority		None	None	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: exit debt/credit payable	Cessation 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 (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j) .			Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Notes (j) and (k) .		Participation is assumed to expire at the end of the contract. Cessation debt/credit (if any) calculated on contractor exit basis, unless the admission agreement is terminated early in which case the low risk exit basis would apply. Letting employer will be liable for future deficits and contributions arising. See Notes (j) and (k) for further details.

* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i).

Note (a) (Gilt exit basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. based on the return from long-term gilt yields) by the time the agreement terminates or the last active member leaves, to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short-term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long-term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies to London Borough of Barking and Dagenham Council as a tax raising body.

Based on extensive modelling carried out for the 2019 valuation exercise, total contributions have been set to ensure that stabilised employers have at least a 70% chance of being fully funded in 17 years under the 2019 formal valuation assumptions.

The stabilisation criteria and limits will be reviewed at the next formal valuation. However, the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, based on membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the period until the next formal valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between formal valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Likelihood of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in [Appendix D](#).

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- i. The new academy will be regarded as a separate employer and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with, for the purpose of setting contribution rates, those of the other academies in the MAT;
- ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and active Fund membership on the day prior to conversion;
- iv. The new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section [3.3](#) above;
- v. As an alternative to (iv), the academy may have the option to elect to pay a stabilised rate of contributions as described in note (b). However, this election will not alter its asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated assets and liabilities.
- vi. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT.

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG and/or DfE guidance (or removal of the formal guarantee currently provided to academies by the DfE). Any changes will be notified to academies, and will be reflected in a subsequent version of the FSS.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of

security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all the following:

- the strain cost of redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- allowance for the risk of a greater than expected rise in liabilities; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also [Note \(i\)](#) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is generally calculated on the ongoing participation basis, as detailed in Appendix E.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see [Note \(j\)](#).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. There are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

- i) Pooling
Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.
- ii) Letting employer retains pre-contract risks
Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit (or entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.
- iii) Fixed contribution rate agreed
Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any deficit or receive an exit credit. In other words, the pension risks "pass through" to the letting employer.

The Administering Authority is willing to administer any of the above options if the approach is documented in the Admission Agreement as well as the transfer agreement. Alternatively, letting employers and Transferee Admission Bodies may operate any of the above options by entering into a separate Side Agreement. The Administering Authority would not necessarily be a party to this side agreement, but may treat the Admission Agreement as if it incorporates the side agreement terms where this is permitted by legislation or alternatively agreed by all parties.

Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example, the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer acting for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

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. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus following the LGPS (Amendment) Regulations 2018 which came into effect on 14th May 2018, this will normally result in an exit credit payment to the Admission Body. Further details of the Funds exit credit policy are set out in [Note \(k\)](#). If a risk-sharing agreement has been put in place (please see note (i) above) no cessation debt or exit credit may be payable, depending on the terms of the agreement.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply a 1% uplift to the ceasing employer's active and deferred member liability values for cessations on a "gilts exit basis", as an estimate of the possible impact of resulting benefit changes.

The Fund Actuary charges a fee for carrying out an employer's cessation valuation, and there will be other Fund administration expenses associated with the cessation, both of which the Fund will recharge to the employer in accordance with the Fund's administration strategy document. For the purposes of the cessation valuation, this fee will be treated as an expense incurred by the employer and will be deducted from the employer's cessation surplus or added to the employer's cessation deficit, as appropriate. This process improves administrative efficiency as it reduces the number of transactions required to be made between the employer and the Fund following an employer's cessation.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will

therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- (a) Where a guarantor does not exist then, to protect other employers in the Fund, the cessation liabilities and final surplus/deficit will normally be calculated using a “gilts exit basis”, which is more prudent than the ongoing participation basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.
- (b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis as described in [Appendix E](#);
- (c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body’s liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund may spread the payment subject to there being a security in place for the employer (i.e. a bond indemnity or guarantee).

If the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter an agreement with the ceasing Admission Body. Under this agreement, the Fund would accept an appropriate alternative security to be held against any deficit on the gilts exit basis, and would carry out the cessation valuation on the ongoing participation basis: Secondary contributions would be derived from this cessation debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission Body may terminate the agreement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore, the Fund reserves the right to revert to the “gilts exit basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission Body would have no contributing members.

Note (k) (Exit credit policy)

Under advice from MHCLG, administering authorities should set out their exit credit policy in their Funding Strategy Statement. Having regard to any relevant considerations, the administering authority will take the following approach to the payment of exit credits:

- Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This will include the majority of “pass-through” arrangements. This is on the basis that these employers would not have not been asked to pay an exit payment had a deficit existed at the time of exit.
- The administering authority does not need to enquire into the precise risk sharing arrangement adopted by an employer but it must be satisfied that the risk sharing arrangement has been in place before it will pay out an exit credit. The level of risk that an employer has borne will be taken into account when determining the amount of any exit credit. It is the responsibility of the exiting employer to set out why the arrangements make payment of an exit credit appropriate.
- Any exit credit payable will be subject to a maximum of the actual employer contributions paid into the Fund.
- As detailed above, the Fund Actuary may adopt differing approaches depending on the employer specific details surrounding the employer’s cessation scenario. The default approach to calculating the cessation position will be on a minimum-risk basis unless it can be shown that there is another employer in the Fund who will take on financial responsibility for the liabilities in the future. If the administering authority is satisfied that there is another employer willing to take on responsibility for the liabilities (or that there is some other form of guarantee in place) then the cessation position may be calculated on the ongoing funding basis.
- The administering authority will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the administering authority and the exiting employer where necessary. For example if the employer does not provide all the relevant information to the administering authority within one month of the cessation date the administering authority will not be able to guarantee payment within six months of the cessation date.
- Under the Regulations, the administering authority has the discretion to take into account any other relevant factors in the calculation of any exit credit payable and they will seek legal advice where appropriate.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. Currently the pools in place within the Fund are as follows:

- Schools generally are also pooled with their funding Council. However, there may be exceptions for specialist or independent schools.
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

The intention of the pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

On the other hand it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much

better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply: this would mean potentially very different (and in particular possibly much higher) contributions would be required from the employer in that situation.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate. Employers permitted to enter (or remain in) a pool at the 2019 valuation will not be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may consider factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non-ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. The payment is payable immediately.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see [3.8](#) below).

3.8 Ill health risk management

The Fund recognises ill health early retirement costs can have a significant impact on an employer's funding and contribution rate, which could ultimately jeopardise their continued operation.

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

When an active member retires on ill health early retirement the claim amount will be paid directly from the insurer to the insured employer. This amount should then be paid to the Fund to allow the employer's asset share to be credited.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see [3.3](#), [Note \(j\)](#) and [Note \(k\)](#)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

The Administering Authority sets the investment strategy, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement, which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile. The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa. Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The Actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix [A1](#)).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contributions rates and the contribution rate setting methodology takes into account this potential variability.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and Employers Forums.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, MHCLG on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark. Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Ministry of Housing, Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

*“to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;
to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and
to take a **prudent longer-term view** of funding those liabilities.”*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers on 27th November 2020 for comments;
- b) Comments were requested within 30 days;
- c) The draft FSS will be taken to the Pension Committee on the 16th December 2020 for agreement
- d) It will also be taken to the Pension Board on the 11th March 2021 at which questions regarding the FSS can be raised and answered;
- e) Following the end of the consultation period the FSS will be updated where required
- f) The FSS will then be published by 31 March 2021.
- g) The FSS is made available through the following routes:
 - Published on the website: www.lbbdpensionfund.org;
 - A copy sent by e-mail to each participating employer in the Fund;
 - A full copy included in the annual report and accounts of the Fund;
 - Copies sent to investment managers and advisers.

A3 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation (which may move to every four years in future – see section 2.8). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

It is possible that (usually slight) amendments may be needed within the three-year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A4 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are several separate statements published by the Fund including the Investment Strategy Statement, Governance and Communications Strategy and an Annual Report and Accounts with up to date information on the Fund. These documents can be found on the web at www.lbbdpensionfund.org.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. respond appropriately to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
11. prepare and maintain a FSS and a ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties: -

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested based on specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.

Risk	Summary of Control Mechanisms
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).
Effect of possible asset underperformance as a result of climate change.	The Fund is considering climate change risk alongside the other risks it is exposed to as part of its investment strategy.

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known.</p> <p>The government's long term preferred solution to GMP indexation and equalisation – conversion of GMPs to scheme benefits – was built into the 2019 valuation.</p>
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>

Risk	Summary of Control Mechanisms
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <ul style="list-style-type: none"> Seeking a funding guarantee from another scheme employer, or external body, wherever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).
An employer ceasing to exist resulting in an exit credit being payable.	<p>The Administering Authority regularly monitors admission bodies coming up to cessation.</p> <p>The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.</p> <p>The Fund exit credit policy is set out in Note (k)</p>

Appendix D – The calculation of Employer contributions

In [Section 2](#) there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

- Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon. See the table in 3.3 Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see [D2](#) below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see [D3](#) below).

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see [note 3.3 Note \(c\)](#) for further details),
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The contributions are calculated based on the method and assumption set out in Appendix E.

The approach includes expenses of administration to the extent that the Fund bears them, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer's funding target assumptions (see Appendix E).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see [D5](#) below)
- at the end of the determined time horizon (see [3.3 Note \(c\)](#) for further details)
- with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non-ill-health retirements relative to any extra payments made; and/or
10. differences in the required likelihood of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore, it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

1. A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.
2. A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary tracks employer assets on an annual basis. Starting with each employer's assets from the previous year end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the year are added to calculate an asset value at the year end. The approach has some simplifying assumptions in that all cashflows and investment returns are assumed to have occurred uniformly over the course of the year. As the actual timing of cashflows and investment returns are not allowed for, the sum of all employers' asset values will deviate from the whole fund asset total over time (the deviation is expected to be minor). The difference is split between employers in proportion to their asset shares at each triennial valuation.

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions used to calculate employer contribution rates?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary’s approach to calculating employer contribution rates involves the projection of each employer’s future benefit payments, contributions and investment returns into the future and then discounting these to obtain present day values.

E2 Future investment returns/discount rate

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer’s funding target.

The asset outperformance assumption (AOA) applicable for each of these three bases is a deterministic assumption, set to provide similar results as those generated under the stochastic approach adopted for the 2019 valuation.

Funding basis	Ongoing participation basis	Contractor exit basis	Low risk exit basis
Employer type	All employers except closed Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer’s funding target	Long term government bond yields plus an asset outperformance assumption (AOA) of 2.5% p.a.	Long term government bond yields plus an AOA of 2.5% p.a. if guaranteed or 1.9% p.a. otherwise	Long term government bond yields with no allowance for outperformance on the Fund’s assets

E3 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

a) Salary growth

After discussion with Fund officers the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2% p.a. until 31 March 2022, followed by
2. retail prices index (RPI) thereafter.

This gives a single “blended” assumption of CPI plus 0.7%. This is a change from the previous valuation, which assumed a flat assumption of CPI plus 0.45% per annum. The change has led to an increase in the funding target (all other things being equal).

b) Pension increases, deferred revaluation and CARE revaluation

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI. (Note that the reduction is applied in a geometric, not arithmetic, basis).

c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

The approach taken is considered reasonable in light of the long-term nature of the Fund and the assumed level of security underpinning members’ benefits.

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), in deriving the funding target underpinning the Primary and Secondary rates: as described in [\(3.3\)](#), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund’s “trustees”.
Admission Bodies	Employers where there is an Admission Agreement setting out the employer’s obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that can participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation .
Funding basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer’s tome horizon . The main assumptions will relate to the level of future investment returns , salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be “fixed interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, are also used in funding as an objective measure of a risk-free rate of return.
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.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will

pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.

LGPS	The Local Government Pension Scheme, a public-sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members , i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal valuation . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Secondary contribution rate	The difference between the employer's actual and Primary contribution rates .. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund.
Valuation	A risk management exercise to review the Primary and Secondary contribution rates , and other statutory information for a Fund, and usually individual employers too.

Contribution Rates for the period 1 April 2020 to 31 March 2023

Employer / Pool code	Employer/Pool name	Primary Rate % 1 April 2020 - 2023	Secondary Rate						Total Contribution Rate								
			2020/2021		2021/2022		2022/2023		2020/2021		2021/2022		2022/2023				
			Secondary Rate (%)	Secondary rate (£000)	Secondary rate (%)	Secondary rate (£000)	Secondary rate (%)	Secondary rate (£000)	% of pay	(£000)	% of pay	(£000)	% of pay	(£000)			
Scheduled																	
	LB OF BARKING & DAGENHAM	18.4%	2.6%	3.6%		4.6%		21.0%	plus	£0	22.0%	plus	£0	23.0%	plus	£0	
Further Education Colleges																	
2	University of East London	20.7%	13.7%	13.7%		13.7%		34.4%	plus	£0	34.4%	plus	£0	34.4%	plus	£0	
3	Barking College	19.9%	2.4%	2.4%		2.4%		22.3%	plus	£0	22.3%	plus	£0	22.3%	plus	£0	
Admitted Bodies																	
9	Barking and Dagenham CAB	33.7%	9.3%	9.3%		9.3%		43.0%	plus	£0	43.0%	plus	£0	43.0%	plus	£0	
10	Elevate	32.0%	-10.7%	-10.7%		-10.7%		21.3%	plus	£0	21.3%	plus	£0	21.3%	plus	£0	
13	Laing O'Rourke	25.7%	3.8%	3.8%		3.8%		29.5%	plus	£0	29.5%	plus	£0	29.5%	plus	£0	
32	Broadway Theatre	29.5%	0.0%	0.0%		0.0%		29.5%	plus	£0	29.5%	plus	£0	29.5%	plus	£0	
33	Schools Offices Services Ltd	26.9%	0.0%	0.0%		0.0%		26.9%	plus	£0	26.9%	plus	£0	26.9%	plus	£0	
37	Aspens	31.5%	0.0%	0.0%		0.0%		31.5%	plus	£0	31.5%	plus	£0	31.5%	plus	£0	
38	Cleantec	29.8%	0.0%	0.0%		0.0%		29.8%	plus	£0	29.8%	plus	£0	29.8%	plus	£0	
39	Sports Leisure Management	22.5%	-1.5%	-1.5%		-1.5%		21.0%	plus	£0	21.0%	plus	£0	21.0%	plus	£0	
40	Be First	29.9%	-2.9%	-2.9%		-2.9%		27.0%	plus	£0	27.0%	plus	£0	27.0%	plus	£0	
41	BD Together	29.9%	-2.1%	-2.1%		-2.1%		27.8%	plus	£0	27.8%	plus	£0	27.8%	plus	£0	
42	BD Corporate Cleaning	30.1%	-2.3%	-2.3%		-2.3%		27.8%	plus	£0	27.8%	plus	£0	27.8%	plus	£0	
43	School Improvement Partnership	29.3%	-1.6%	-1.6%		-1.6%		27.7%	plus	£0	27.7%	plus	£0	27.7%	plus	£0	
44	Lewis & Graves	29.4%	5.2%	5.2%		5.2%		34.5%	plus	£0	34.5%	plus	£0	34.5%	plus	£0	
45	Aspens 2	29.6%	0.0%	0.0%		0.0%		29.6%	plus	£0	29.6%	plus	£0	29.6%	plus	£0	
46	BD Management Services	20.4%	7.4%	7.4%		7.4%		27.8%	plus	£0	27.8%	plus	£0	27.8%	plus	£0	
47	Town & Country Cleaners	27.7%	0.0%	0.0%		0.0%		27.7%	plus	£0	27.7%	plus	£0	27.7%	plus	£0	
Academies																	
15	Thames View Infant Academy	19.8%	0.7%	0.7%		0.7%		20.5%	plus	£0	20.5%	plus	£0	20.5%	plus	£0	
21	Riverside Secondary School	19.3%	0.0%	0.0%		0.0%		19.3%	plus	£0	19.3%	plus	£0	19.3%	plus	£0	
22	Dorothy Barley Academy	19.8%	0.0%	0.0%		0.0%		19.8%	plus	£0	19.8%	plus	£0	19.8%	plus	£0	
23	Goresbrook School	18.1%	0.0%	0.0%		0.0%		18.1%	plus	£0	18.1%	plus	£0	18.1%	plus	£0	
24	Warren School Academy	20.1%	0.0%	0.0%		0.0%		20.1%	plus	£0	20.1%	plus	£0	20.1%	plus	£0	
25	Thames View Junior Academy	18.9%	1.8%	1.8%		1.8%		20.7%	plus	£0	20.7%	plus	£0	20.7%	plus	£0	
26	Sydney Russell Academy	20.1%	0.0%	0.0%		0.0%		20.1%	plus	£0	20.1%	plus	£0	20.1%	plus	£0	
27	Riverside Primary	19.4%	0.0%	0.0%		0.0%		19.4%	plus	£0	19.4%	plus	£0	19.4%	plus	£0	
28	Riverside Bridge SEN School	19.4%	0.0%	0.0%		0.0%		19.4%	plus	£0	19.4%	plus	£0	19.4%	plus	£0	
29	Partnership Learning	18.9%	1.0%	1.0%		1.0%		19.9%	plus	£0	19.9%	plus	£0	19.9%	plus	£0	
30	Elutec	20.8%	0.0%	0.0%		0.0%		20.8%	plus	£0	20.8%	plus	£0	20.8%	plus	£0	
31	Eastbury Primary Academy	20.1%	0.0%	0.0%		0.0%		20.1%	plus	£0	20.1%	plus	£0	20.1%	plus	£0	
34	Greatfields School	19.0%	0.0%	0.0%		0.0%		19.0%	plus	£0	19.0%	plus	£0	19.0%	plus	£0	
35	James Cambell Academy	20.6%	1.6%	1.6%		1.6%		22.2%	plus	£0	22.2%	plus	£0	22.2%	plus	£0	
36	St Margarets Academy	19.9%	0.9%	0.9%		0.9%		20.8%	plus	£0	20.8%	plus	£0	20.8%	plus	£0	

APPENDIX B

Responsibilities of Key Parties

The Administering Authority should:-

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;
- prepare and maintain and FSS and a SIP, both after proper consultation with interested parties;
- monitor all aspects of the fund's performance and funding and amend FSS/SIP; and
- advise the Actuary of any new or ceasing employers.

The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- provide annual reconciliation of pay and contributions promptly to the employer at the end of the financial year;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:-

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS; and
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

Appendix 4:



**London Borough of Barking and
Dagenham Pension Fund**



**INVESTMENT STRATEGY
STATEMENT**

1. Introduction

This is the Investment Strategy Statement (ISS) produced by London Borough of Barking and Dagenham as administering authority of the London Borough of Barking and Dagenham Pension Fund (“the Fund”), to comply with the regulatory requirements specified in The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the Statutory Guidance on Preparing and Maintaining an Investment Strategy Statement issued by the Department for Communities and Local Government (DCLG) in September 2016.

The Regulations (regulation 7) set out that the ISS must include:

- a) a requirement to invest fund money in a wide variety of investments;*
- b) the authority’s assessment of the suitability of particular investments and types of investments;*
- c) the authority’s approach to risk, including the ways in which risks are to be assessed and managed;*
- d) the authority’s approach to pooling investments, including the use of collective investment vehicles and shared services;*
- e) the authority’s policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and*
- f) the authority’s policy on the exercise of the rights (including voting rights) attaching to investments.*

This ISS seeks to address the Requirements of Regulation 7 and the Statutory Guidance of September 2016.

The ISS replaces the Statement of Investment Principles and, although it is a similar document, there are several additional disclosures that need to be covered including:

- The removal of the investment restrictions contained in schedule 1 of the LGPS (Management and Investment of Funds) Regulations 2009;
- Fund’s approach to pooling investments and shared services;
- How social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- The Fund’s assessment of the suitability of all major asset classes.

The Statement is subject to review from time to time and will certainly be reviewed within six months of any material change in investment policy or other matters as required by law. As a minimum the ISS must be reviewed every three years. The ISS has been produced following a complete review of the Fund’s investment strategy and incorporates the requirements of the Funding Strategy Statement. In preparing this Statement the administering authority has taken and considered advice from the Fund’s Investment Advisor, Aon Hewitt, and from the Fund’s Independent Investment Advisor, John Raisin Financial Services Limited.

A copy of the ISS can be found at: www.lbbdpensionfund.org
For further information please contact David Dickinson: david.dickinson@lbbd.gov.uk.

2. Overall Responsibilities

A full explanation of the Fund's governance arrangements can be found in the Council's Constitution Part C – Responsibility for Functions – Our Scheme of Delegation - Section M – The Pension Committee published on the Council's website: <http://www.lbbd.gov.uk/CouncilandDemocracy/Documents/Constitution/const-c-section-m.pdf>

3. Investment Responsibilities

The Administering Authority the Council has delegated responsibility for the administration of the Fund to the Section 151 officer, advised by the Pension Committee and after taking expert advice from the Fund's Investment Advisor (Aon Hewitt) and the Fund's Independent Advisor, John Raisin Financial Services Limited.

As at 30 June 2018 the Pension Committee comprised:

Pension Committee Voting Members

Chair:	Councillor Dave Miles
Deputy:	Councillor Giasuddin Miah
	Councillor Sade Bright
	Councillor Laila Butt
	Councillor Kashif Haroon
	Councillor Adegboyega Oluwole
	Councillor Foyzur Rahman

Non-Voting Members

Union Representative:	GMB - Gavin Palmer
Member Representative:	Susan Parkin
Employer Representative:	UEL – John Garnham

In preparing the ISS the Committee has consulted with the administering authority and other principal employers within the Fund and has taken and considered proper written advice from the Aon Hewitt and John Raisin Financial Services Limited.

In Appendix A, the Committee has set out details of the extent to which the Fund complies with the six principles set out in the Chartered Institute of Public Finance and Accountancy's (CIPFA) publication, 'Investment Decision Making and Disclosure in the Local Government Pension Scheme 2012 – a guide to the application of the 2008 Myners Principles to the management of LGPS funds'.

Although under the LGPS Investment Regulations 2016 an Administering Authority is no longer required to report the extent of their compliance against the Myners Principles, the London Borough of Barking and Dagenham has decided to continue to report this, as an appendix to the ISS, as it considers this to be both good governance practice and an element of good investment practice.

4. Fund Objective

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of employer contributions is set to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

This funding position will be reviewed at each triennial actuarial valuation of the Fund, or more frequently as required. The most recent triennial valuation took place in 2016, with the contribution rates effective from 1 April 2017.

5. Investment Strategy

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund (Appendix B). Within the strategic benchmark the investment structure adopted by the Committee comprises a mix of segregated and pooled manager mandates, including actively managed and passive mandates. The Fund benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. All day to day investment decisions have been delegated to the Fund's authorised investment managers.

The Committee monitors investment strategy relative to the agreed asset allocation benchmark. The investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

6. Pooling Investments (Regulation 7(2)(d) - The approach to pooling investments, including the use of collective investment vehicles and shared services).

The Fund has formally agreed to join the London Collective Investment Vehicle (LCIV) as part of the Government's pooling agenda. The LCIV is fully authorised by the FCA as an Alternative Investment Fund Manager ("AIFM") with permission to operate a UK based Authorised Contractual Scheme fund (the "ACS Fund"). The ACS Fund, which is tax transparent in the context of international tax treaties, will be structured as an umbrella fund with a range of sub-funds providing access, over time, to the full range of asset classes that the boroughs require to implement their investment strategies.

For all future investments, where there is a suitable asset class provided, the Fund will seek to utilise the LCIV. Unless prohibited by Regulation or Statutory Guidance where the asset class is not available via the LCIV and it is not appropriate to access it via a passive allocation, the Fund will seek clarification from DCLG as to whether the Fund can tender for a suitable manager.

Current LCIV allocations

As at 31 March 2018 the Fund had a third of its assets invested through the LCIV, including:

- Two Diversified Growth Managers: Newton, Pyrford
- One active equity manager: Baillie Gifford.

Passive Investments via Life Funds

Approximately a fifth of the Fund's investments are via passively managed Life Funds. LIFE Funds are exempt from being included within the pooling arrangements. This allocation will be reviewed annually.

Current Partnerships

The Fund is invested in three separate partnerships including one in an alternatives investment with M&G / Prudential and two with the Fund's infrastructure manager Hermes GPE. The size of the M&G / Prudential investment is a maximum of 1% of the Fund's assets under management.

The infrastructure investment is accessed via two partnerships, with a limit of 10%. The allocation was agreed by the pension Committee on 19 June 2012 and subsequently increased to 10.0% at the 23 March 2015 Committee, with an investment period limited to 17 years. From 1 April 2017, the split allocation will be combined into one LLP.

The Fund has a 10% allocation to LLPs and these investments will remain outside of the LCIV.

Diversified Alternatives

The Fund has a 7% investment in Diversified Alternatives, including Hedge Funds and Private Equity via Aberdeen Asset Management. These illiquid assets will not be moved to the LCIV until there is an adequate alternative provided by LCIV.

Credit, Property and Equity Income Strategy

The Fund has approximately 30% of its assets invested in credit, property, and an equity income strategy. There is the potential for these allocations to be moved to the LCIV and these holdings will be reviewed as and when suitable alternatives are provided by the LCIV. The review will consider the strategy, the assets held, the risks and the suitability of the strategy within the overall Fund prior to any investment agreement being made and proper advice will be sought from the Fund's advisors. Where an alternative is suitable then transition arrangement will be arranged.

If the alternative strategy is not suitable then the current manager will remain. If there is a requirement for the Fund to move from the manager to the LCIV then an alternative solution will be to seek to access a suitable passive strategy through a LIFE Fund.

7. Funding Strategy Statement

There are close links between the ISS and the Funding Strategy Statement, which sets out the Fund's approach to funding its pension liabilities and the resulting impact on employer contribution rates. The Funding Strategy Statement is available on the Fund's website: www.lbbdpensionfund.org

8. Types of investment to be held

The Fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, fixed and index linked bonds, cash, property and commodities, infrastructure and diversified alternatives, either directly or through pooled funds.

The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products, for the purpose of efficient portfolio management or to hedge specific risks. The Committee considers all of these classes of investment to be suitable in the circumstances of the Fund.

The strategic asset allocation of the Fund includes a mix of asset types across a range of geographies in order to provide diversification of returns.

9. Statutory Investment Limits

Statutory maximum limits, as previously outlined in schedule 1 of the LGPS (Management and Investment of Funds) Regulations 2009 are no longer applicable. Instead this Fund will make asset allocation decisions based on a prudential approach to securing a diversified investment strategy.

The maximum percentage of the Fund's total value that the Fund will invest in each asset class is provided below and is subject to an annual review:

Equities	55%	Bonds	25%
Absolute Return	30%	Property	20%
Infrastructure	20%	Diversified Alternatives	20%

10. Balance between various kinds of investments

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking proper advice, agreed specific benchmarks for each manager so that, in aggregate, they are consistent with the Fund's asset allocation. The Fund's investment managers hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers maintain diversified portfolios through direct investment or pooled vehicles.

In March 2017 an Asset Liability Review (ALR) was completed by Aon, with a training session held on 13 March 2017.

11. Derisking Strategy

At the June 2017 Pension Committee Members agreed to a revised derisking strategy (see appendix C). The derisking strategy is implemented when the Fund's funding level reaches a number of levels.

The derisking strategy considers the need to derisk through investing in inflation linked assets, but also through derisking away from fund manager risk and also derisking through investing in less risky assets with the various asset classes.

12. Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are:

Funding risks:

- Financial mismatch
 1. The risk Fund assets fail to grow in line with cost of meeting Fund liabilities.
 2. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics –The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise.

Asset risks

- Concentration - risk a significant allocation to a single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates

The Committee manages asset risks as follows:

It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrains risk within the Committee's expected parameters. By investing across a range of assets, including quoted equities and bonds; the Committee has recognised the need for some access to liquidity in the short term. In appointing several investment managers, the Committee has considered the risk of underperformance by any single investment manager.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee takes professional advice and considers the appointment of specialist transition managers.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

The Fund also maintains an extensive risk register, where risks the Fund is exposed to are considered, with appropriate action taken to mitigate the risk where possible.

13. Realisation of investments

The majority of the Fund's investments are quoted on major stock markets and may be realised relatively quickly if required. A proportion of the Fund's investments, including Property, Infrastructure and Diversified Alternatives, with 7%, 10% and 7% respective benchmark allocations, would take longer to be realised.

The overall liquidity of the Fund's assets is considered in the light of potential demands for cash.

14. Expected return on investments

Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the actuary in funding the Fund. For the 2016 triennial valuation the actuary has calculated the return expectation as 4.1%.

15. Social, Environmental and Ethical Considerations (Regulation 7(2)(e) - How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments)

The Fund is committed to being a long-term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills.

The Committee recognises that social, environmental and ethical considerations (SEE) are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale. In addition, the Committee undertakes training on a regular basis and this will include training and information sessions on matters of social, environmental and corporate governance.

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments regarding their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Fund will invest on the basis of financial risk and return having considered a range of factors contributing to the financial risk including social, environment & governance factors to the extent these directly or indirectly impact on financial risk and return.

The Fund, in preparing and reviewing its ISS will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

Current Restrictions:

At the 12 March 2014 Committee Meeting, Members agreed a policy to restrict direct investment in tobacco but allow indirect investments in tobacco through pooled funds for both passive and active managers. This restriction will be reviewed as part of each Investment Strategy Review.

16. Exercise of Voting Rights (Regulation 7(2)(f) - The exercise of rights (including voting rights) attaching to investments)

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and wider society.

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the manager(s) has produced written guidelines of its process and practice in this regard. The manager(s) is encouraged to vote in line with its guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Investments through LCIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Council and Pension Fund website:

- a) The Fund has issued a Statement of Compliance with the Stewardship Code which can be found on the Council / Pension Fund website and has also agreed to become a signatory to the Code.
- b) The Fund has reviewed the London CIV Statement of Compliance with the Stewardship Code and has agreed to adopt this Statement.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund, through its participation in the London CIV, will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests. In addition the Fund:

- a) is a member of the LAPFF and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners
- b) gives support to shareholder resolutions where these reflect concerns which are shared and represent the Fund interest
- c) joins wider lobbying activities where appropriate opportunities arise.

17. Stock Lending

The policy on stock lending reflects the nature of the mandates awarded to investment managers by the Committee, which include both pooled and segregated mandates.

The Committee has considered its approach to stock lending, taking advice from its investment advisers. After consideration of that advice, the Committee has given authority to its custodian to lend stocks (principally equities) within its mandates subject to agreed collateral being provided and an overall restriction that the proportion of Fund assets that are available to be lent at any time is limited to 25% of Fund assets.

Stock lending does not prevent any investments from being sold. Safeguards are in place to reduce the risk of financial loss to the Fund in the event of default. These safeguards include receiving liquid collateral in excess of the value of the loan, indemnity agreement with the lending agent and regular reviews of credit-worthiness of potential borrowers. The Committee reviews its policy on stock lending (including the amount and type of collateral used) on a regular basis.

18. Safekeeping of Assets

A global custodian is employed to ensure the safekeeping of investments.

19. Performance measurement

An independent provider is employed to calculate performance for the Funds. Each quarter, the Committee considers the performance of the combined assets and each manager's portfolio against their respective benchmark. The Committee review performance on an annual basis.

20. Stewardship Code

The UK Stewardship Code (SC) aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The Code sets out good practice on engagement with investee companies to which the FRC believes institutional investors should aspire and operates on a 'comply or explain' basis. In accordance with the Statutory Guidance of September 2016 the Fund has determined that it should become a Signatory to the Code (see Appendix D).

21. Additional Voluntary Contributions (AVCs)

The Committee gives members the opportunity to invest in a range of vehicles at the members' discretion. Currently AVC is managed by Prudential Plc.

Signed For and on Behalf of the Fund

Claire Symonds

Chief Operating Officer

Appendix A: Myners Principles

The Pension Committee considers that its practices are compliant with the CIPFA principles for Investment Decision Making in LGPS. The 6 principles are:

- 1) Effective decision making;
- 2) Clear objectives;
- 3) Risk and liabilities;
- 4) Performance assessment;
- 5) Responsible ownership; and
- 6) Transparency and reporting.

The Committee's self-assessment of adherence to the principles is shown below

Principles	Response on Adherence
<p>Principle 1 Effective Decision Making: Administering authorities should ensure:</p> <ul style="list-style-type: none"> • That decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. 	<p>Compliant Decisions are taken by the Pension Committee, which is responsible for the management of the Fund.</p> <p>The Committee has support from Council officers with sufficient experience to assist them. The Committee also seeks advice from professional actuarial and investment advisers to ensure it can be familiar with the issues concerned when making decisions.</p> <p>The Committee is able to make robust challenges to advice and is aware of where potential conflicts of interest may reside within the Committee and in relation to service providers.</p>
<p>Principle 2 Clear objectives:</p> <ul style="list-style-type: none"> • An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers. 	<p>Compliant The Committee has established objectives for the Fund which takes account of the nature of Fund liabilities and the contribution strategy. This involved discussions with the Actuary to enable the Committee to set the overall risk budget for the Fund. This is reflected in the investment mandates awarded to the asset managers.</p> <p>There is dialogue with admitted bodies within the Fund in relation to the contributions they pay, their capacity to pay these contributions and the level of guarantees they can provide.</p>

<p>Principle 3 Risk and liabilities:</p> <ul style="list-style-type: none"> • In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk. 	<p>Compliant</p> <p>The investment strategy is considered in the light of the nature of the Fund liabilities, the timescale over which benefits will be paid, and financial and demographic factors affecting the liabilities, such as inflation and improving longevity.</p> <p>The Committee and Council officers have discussed the contribution strategy with the Actuary taking account of the strength of covenant of the Council and its long term horizon. Discussions have also taken place with admitted bodies in relation to the affordability of contributions and the strengths of their covenants.</p>
<p>Principle 4 Performance assessment:</p> <ul style="list-style-type: none"> • Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members. 	<p>Compliant</p> <p>The performance of the Fund and its individual managers are monitored on a regular basis.</p> <p>The quality of advisers is assessed on a qualitative basis but is not formally measured. Advisers are subject to periodic re-tender.</p> <p><i>The Fund's contracts with its advisers are regularly market tested.</i></p> <p><i>The Pension Committee will carry out a formal process to measure its own effectiveness and will report this to the Pensions Committee on a regular basis.</i></p> <p><i>Training and attendance of members of the Pensions Committee are monitored and reported on annually.</i></p>
<p>Principle 5 Responsible Ownership:</p> <p>Administering authorities should</p> <ul style="list-style-type: none"> • recognise, and ensure that their partners in the investment chain adopt, the FRC's UK Stewardship Code 	<p>Compliant</p> <p>The Pensions Committee encourages its investment managers to adopt the Financial Reporting Council (FRC's) UK Stewardship Code but not all managers may necessarily comply fully with the Code's principles</p> <p>This Investment Strategy Statement includes a statement on the Fund's policy on responsible ownership.</p>

<ul style="list-style-type: none"> • include a statement of their policy on responsible ownership in the Investment Strategy Statement. • Report periodically to scheme members on the discharge of such responsibilities. 	<p>The Fund has determined to become a Signatory to the FRC Code in accordance with the Statutory Guidance issued by the DCLG in September 2016 .</p>
<p>Principle 6 Transparency and Reporting:</p> <p>Administering authorities should</p> <ul style="list-style-type: none"> • act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. • Should provide regular communication to scheme members in the form they consider most appropriate. 	<p>Compliant</p> <p>The Pension Committee maintains minutes of meetings which are available on the Council website.</p> <p>The Council holds a formal annual meeting for members and also meets periodically with sponsoring employer bodies. A member representative attends Committee meetings.</p> <p>The Investment Strategy Statement is published on the Council website and is available to members on request. Other information on the Scheme is available to members on the Council website.</p>

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Appendix B: Strategic Asset Allocation

The strategic asset allocation of the Fund, together with control ranges and the benchmark index for each asset class is as follows:

Asset Class	Strategic Allocation 15 June 2017 %	Strategy Control Range %	Benchmark Index
Global Equities	48	45-53	MSCI AC World Index
Growth	17	15-19	
Income Generating	15	13-17	
Passive Developed World	16	14-18	
TOTAL EQUITIES	48	45-53	MSCI AC World Index
UK Bonds	4	3-5	Merrill Lynch Sterling Broad Market
Global Credit	8	6-10	Target Return 4.5% (revised)
Non-investment grade bonds		Up to 75%	
Emerging markets debt		Up to 30%	
Non-rated debt (rated internally)		Up to 10%	
Securitised Debt		Up to 25%	
TOTAL BONDS	12	9-15	
Absolute Return	16	14-18	Pyrford: RPI +5% p.a. Newton: 1 mth LIBOR +4% p.a
Property	7	6-9	IPD UK Property Fund Indices All Balanced Property Funds
Diversified Alternatives	8	6-10	3mth LIBOR plus 4%
Infrastructure	9	4-11	Target yield 5.9% per annum
Senior Loans*	0	0-1	Target Return 5-6%
Cash	0	0-2	
TOTAL ASSETS	100	-	

* Senior Loans Strategic Allocation reduced to 0% as holding is under 0.5%.

Appendix C: Derisking Strategy

Asset Type	Triggers								Notes
	Strategic Allocation 15 June 2017	80%	85%	90%	93%	96%	100%	Target	
High Growth Assets	%	%	%	%	%	%	%	%	
Global Equity									
Growth	17	17	17	15	15	10	0	0	Reduce Equity to 35% when fully funded. Maintain income generating to cover cashflow requirements - all allocation is passive / fundamental index
Income Generating	15	15	15	15	15	15	0	0	
Passive Developed World	16	14	13	13	0	0	0	0	
Passive Income Generating	0	0	0	0	11	10	35	35	
Global Credit	8	8	8	7	7	5	0	0	Maintain allocation to 90% funded, then reduce. Reduce to nil when reach 96%
Illiquid / DGF									
Property	7	7	7	7	7	7	7	7	
Diversified Alternatives	6	6	6	6	6	6	6	6	
Diversified Growth Funds	18	20	21	22	23	23	20	20	Diversified growth funds provide protection but with a growth bias.
No inflation link									
UK Credit	4	2	0	0	0	0	0	0	Used to fund the initial move to IL Bonds
Matching Assets									
Index-Linked Gilts	0	2	4	6	7	15	23	23	
Infrastructure	9	9	9	9	9	9	9	9	
Inflation Linked Assets	0	0	0	0	0	0	0	0	
Total	100	100	100	100	100	100	100	100	

Appendix D: Statement of Compliance with UK Stewardship Code

<p>Principle 1 <i>Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.</i></p>	<p><i>Stewardship is seen as part of the responsibilities of share ownership, and is therefore an integral part of the Fund's investment strategy.</i></p> <p><i>The Pension Committee actively monitor the fund managers through quarterly performance analysis, annual and periodic meetings with the individual fund managers and through direct monitoring by the officers, which includes monitoring and reporting on:</i></p> <ul style="list-style-type: none"> • <i>Fund manager performance;</i> • <i>Investment Process compliance and changes;</i> • <i>Changes in personnel (joiners and leavers);</i> • <i>Significant portfolio developments;</i> • <i>Breaches of the IMA / Restrictions;</i> • <i>Business wins and losses; and</i> • <i>Corporate and other issues.</i> <p><i>Voting is delegated to Fund Managers through the Investment Management Agreement (IMA).</i></p> <p><i>Baillie Gifford, UBS and Kempen take direct responsibility for stewardship issues, voting and engagement, in the funds which they manage on our behalf. These managers publish Statements of Compliance with the Stewardship code.</i></p> <p><i>Details are available on their websites at</i></p> <p>www.bailliegifford.com/pages/UKInstitutional/CorporateGovernance/CorporateGovernanceSRI.aspx</p> <p>http://www.ubs.com/global/en/about_ubs/corporate_governance.htm</p> <p>http://www.kempen.nl/over_kempen.aspx?id=27770</p>
<p>Principle 2 <i>Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.</i></p>	<p><i>We also encourage the asset managers employed by the Funds to have effective policies addressing potential conflicts of interest.</i></p> <p><i>In respect of conflicts of interest within the Fund, Pension Committee members are required to make declarations of interest prior to Committee meetings.</i></p> <p><i>The Funds' overriding obligation is to act in the best financial interests of the members.</i></p>

<p>Principle 3 <i>Institutional investors should monitor their investee companies.</i></p>	<p><i>Day-to-day responsibility for managing the Fund's investments is delegated to the relevant fund managers, who are expected to monitor companies, intervene where necessary, and report back regularly on activity undertaken.</i></p> <p><i>Reports from fund managers on voting and engagement activity will be reported to the Committee on a quarterly basis from June 2013.</i></p> <p><i>Concerns are raised directly with the fund managers and issues raised are reported back to the Committee at the subsequent Committee meeting.</i></p> <p><i>Fund manager Internal Control reports are monitored, with breaches reported back to the Committee.</i></p> <p><i>Where the Fund is directly invested, such as infrastructure, members of the Committee and officers are able to attend their AGM.</i></p>
<p>Principle 4 <i>Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.</i></p>	<p><i>As highlighted above, responsibility for day-to-day interaction with companies is delegated, including the escalation of engagement when necessary.</i></p> <p><i>We expect the approach to engagement on our behalf to be value orientated and focussed on long term profitability. We expect Kempen, Baillie Gifford and UBS to disclose their guidelines for such activities in their own statements of adherence to the Code. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.</i></p> <p><i>Consistent with our fiduciary duty to beneficiaries, we also participate in shareholder litigation. We pursue compensation for any losses sustained because of inappropriate actions by company directors in order to encourage improved conduct in the future.</i></p>
<p>Principle 5 <i>Institutional investors should be willing to act collectively with other investors where appropriate</i></p>	<p><i>The Fund seeks to work collaboratively with other institutional shareholders in order to maximize the influence that it can have on individual companies.</i></p> <p><i>The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which seeks to promote the highest standards of corporate governance and corporate responsibility amongst investee companies.</i></p> <p><i>Where possible, the Fund seeks to exercise its voting rights attaching to its non- UK equity holdings by delegation through Power of Attorneys.</i></p>

<p>Principle 6 <i>Institutional investors should have a clear policy on voting and disclosure of voting activity.</i></p>	<p><i>The emphasis of our voting policy is to promote best practice. We seek to vote on all shares held.</i></p> <p><i>Our preference is for managers to vote on the Funds behalf and for responsible stewardship to be integral to the investment decision making process.</i></p> <p><i>We are comfortable with delegation of voting to Baillie Gifford and Kempen for the funds they manage. UBS vote on our behalf because the investment is in a passive pooled fund. The managers' voting policies can be found at the websites mentioned above.</i></p>
<p>Principle 7 <i>Institutional investors should report periodically on their stewardship and voting activities.</i></p>	<p><i>We will seek to report annually on stewardship activity through a specific section in the Funds' annual report and accounts and on our website.</i></p> <p><i>We also report annually on stewardship issues to the Pension Committee.</i></p>

Appendix 5: Communications Policy Statement

1. Introduction

This is the Communications Policy Statement of LB of Barking and Dagenham Pension Fund, administered by LB of Barking and Dagenham (the Administering Authority).

The Fund liaises with over 30 employers and approximately 18,000 scheme members in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful. It is effective from 1 April 2017.

This policy statement is required by the provisions of Regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2008 and Regulation 106B of the Local Government Pension Scheme Regulations 1997. The provision requires us to:

“...prepare, maintain and publish a written statement setting out their policy concerning communications with:

- (a) members.*
- (b) representatives of members.*
- (c) prospective members.*
- (d) employing authorities.”*

In addition it specifies that the statement must include information relating to:

- “(a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;*
- (b) the format, frequency and method of distributing such information or publicity; and*
- (c) the promotion of the Scheme to prospective members and their employing authorities.”*

As a provider of an occupational pension scheme, we are already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other legislation, for example the Pensions Act 2004. Previously the disclosure requirements have been prescriptive, concentrating on timescales rather than quality. From 6 April 2006 more, generalised disclosure requirements are to be introduced, supported by a Code of Practice.

The type of information that pension schemes are required to disclose will remain very much the same as before, although the prescriptive timescales are being replaced with a more generic requirement to provide information within a *“reasonable period”*. The draft Code of Practice 1 issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met.

A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Management section of this document, alongside those proposed by the Pension Regulator in the draft Code of Practice (Code of Practice – Reasonable periods for the purposes of the Occupational Pension Schemes (Disclosure of Information) Regulations 2006 issued September 2005)

Within the Pension Section the responsibility for communication material is performed by our Pension Manager with the assistance of the Senior Pensions Officer. Although we write most all communication within the section, including any web based or electronic material, the design work is carried out by the Council's publications team. We also carry out all the arrangements for forums, workshops and meetings covered within this statement.

Some printing is carried out by an external supplier, which is usually decided based on the most economical of three quotations from suppliers. In exceptional circumstances (either due to lack of skills or inability to meet delivery timescales), we may use external consultants to assist with the preparation or design of communications. Any such circumstances are agreed in advance with the Pensions Manager. The remainder of the printing is carried out internally by the Council's printing department.

2. Communication with key audience groups

2.1 Our audience

We communicate with most stakeholders. For the purposes of this communication policy statement, we are considering our communications with the following audience groups:

- active, deferred members, pensioners and prospective members;
- employing authorities (scheme employers and admission bodies);
- senior managers;
- union representatives;
- elected members/the Pension Committee;
- Pension Section staff;
- Tax payers, the media and other Stakeholders / Interested Parties.

In addition, there are many other stakeholders with whom we communicate on a regular basis, such as HMRC, solicitors, the Pensions Advisory Service, and other pension providers. We also consider as part of this policy how we communicate with these interested parties.

2.2 How we communicate

- **General communication** - We use paper based communication as our main means of communicating, i.e. sending letters to our scheme members. However, we will compliment this by use of electronic means. We accept electronic communications, i.e. e-mail and, where we do so, we will respond electronically where possible. Pension staff are responsible for all pension related queries. Phone calls or visitors are passed to the relevant person within the section. Direct line phone numbers are advertised to allow easier access to the correct person;
- **Branding** - as the Fund is administered by the Administering Authority, all literature and communications will conform with the branding of the Council; and
- **Accessibility** - we recognise that individuals may have specific needs in relation to the format of our information or the language in which it is provided. Demand for alternative formats/languages is not high enough to allow us to prepare alternative format/language material automatically; however, these are available on request.

2.3 Policy on Communication with Active, Deferred and Pensioner Members

Our objectives regarding communication with members are:

- for the LGPS to be used as a tool in the attraction and retention of employees;
- for better education on the benefits of the LGPS;
- to provide more opportunities for face to face communication;
- as a result of improved communication, for queries and complaints to be reduced;
- for our employers to be employers of choice;
- to increase take up of the LGPS employees; and
- to reassure stakeholders.

Our objectives will be met by providing the following communications, which are over and above individual communications with members (for example, the notifications of scheme benefit or responses to individual queries). The communications are explained in more detail in the table below:

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group
Scheme booklet	Paper based / on website	At joining & major scheme changes	Post to home address/via employers	Active
Newsletters	Paper based	As scheme changes necessitate notification	Via employers / post to home address	Separately for active / deferred and pensioners
Pension Fund Report and Accounts	Paper based and on website	Annually	On request	All
Pension Fund Accounts Summary	Paper based	At valuation	Via employers	All Actives
Estimated Benefit Statements	Paper based	Annually	Post to home address	active & deferred members
Face to Face education sessions	Face to Face	On request	On request	All
Joiner Packs	Paper based	On joining	Post to home addresses	Active members

2.4 Explanation of communications

- **Scheme booklet** – A booklet providing a relatively detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits;
- **Newsletters** – An ad hoc newsletter which provides updates in relation to changes to the LGPS as well as other related news, such as national changes to pensions, a summary of the accounts for the year, contact details, etc;

- **Fund Report and Accounts** – Details of the value of the Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers. This is a somewhat detailed and lengthy document and, therefore, it will not be routinely distributed except on request. A summary document, as detailed below, will be distributed;
- **Fund Report and Accounts Summary** – provides a handy summary of the position of the Fund during the financial year, income and expenditure as well as other related details;
- **Estimated Benefit Statements** – For active members these include the current value of benefits as well as the projected benefits at age 65. The associated death benefits are also shown as well as details of any individuals the member has nominated to receive the lump sum death grant. State benefits are also included. In relation to deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits;
- **Face to face education sessions** – These are education sessions that are available on request for small groups of members. For example, where an employer is going through a restructuring, it may be beneficial for the employees to understand the impact any pay reduction may have on their pension rights; and
- **Joiner packs** – These complement the joiner booklet and enclose information on AVCs and the paperwork needed to join the scheme.

2.5 Policy on promotion of the scheme to Prospective Members and their Employing Authorities

Our objectives regarding communication with prospective members are:

- to improve take up of the LGPS;
- the LGPS to be used as a tool in the attraction of employees; and
- our employers to be employers of choice.

The Pension Administration Section does not have direct access to prospective members which necessitates working with the employing authorities in the Fund to meet these objectives by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Overview of the LGPS leaflet	Paper based	On commencing employment	Via employers	New employees
Educational Sessions	As part of induction workshops	On commencing employment	Face to face	New employees
Promotional newsletters/flyers	Paper based	Ad Hoc	Via employers	Existing employees

2.6 Explanation of communications

- **Overview of the LGPS leaflet** – A short leaflet that summaries the costs of joining the LGPS and the benefits of doing so;
- **Educational sessions** – An opportunity to talk to individuals to provide an overview of the benefits of joining the LGPS;
- **Promotional newsletter/flyers** – These will be designed to help those who are not in the LGPS to understand the benefits of participating in the scheme and provide guidance on how to join the scheme.

2.7 Policy on promotion of the scheme with Employing Authorities

Our objectives regarding communication with employers are to:

- improve relationships;
- assist them in understanding costs/funding issues;
- work together to maintain accurate data;
- ensure smooth transfers of staff;
- ensure they understand the benefits of being an LGPS employer;
- assist them in making the most of the discretionary areas within the LGPS.

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group
Employers' Guide	Paper based	At joining and updated as necessary	Post or via email	Main contact for all employers
Newsletters	Electronic (e-mail) and paper based	As required	Post or via email	All contacts for all employers
Employers meeting	Face to face	As required / when contribution rate dictates	Invitations by email	All contacts for all employers
Pension Fund Report and Accounts	Paper based and employer website	Annually	Post	Main contact for employers

2.8 Explanation of communications

- **Employers' Guide** – a detailed guide that provides guidance on the employer responsibilities including the forms and other necessary communications with the Pension Section and scheme members;
- **Newsletters** – a technical briefing newsletter that will include recent changes to the scheme, the way the Pension Section is run and other relevant information so as to keep employers fully up to date;
- **Employers meeting** – a formal seminar style event covering topical LGPS issues;
- **Pension Fund Report and Accounts** – details of the value of the Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.

2.9 Policy on communication with Senior Managers

Our objectives regarding communication with senior managers are to:

- ensure they are fully aware of developments within the LGPS;
- ensure that they understand costs/funding issues;
- promote the benefits of the scheme as a recruitment/retention tool.

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All
Committee papers	Paper based and electronic	In advance of Pension Committee	Email or hard copy	All

2.10 Explanation of communications

- **Briefing papers** – a briefing that highlights key issues or developments relating to the LGPS and the Fund which can be used by senior managers when attending meetings;
- **Committee paper** – a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

2.11 Policy on communication with union representatives

Our objectives regarding communication with union representatives are to:

- foster close working relationships in communicating the benefits of the scheme to their members;
- ensure they are aware of the Fund's policy in relation to any decisions that need to be taken concerning the scheme;
- engage in discussions over the future of the scheme;
- provide opportunities to educate union representatives on the provisions of the scheme.

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All
Face to face education sessions	Face to face	On request	On request	All
Pension Committee meetings	Meeting	As and when required	Via invitation when appropriate	All

2.12 Explanation of communications

- **Briefing papers** – a briefing that highlights key issues and developments relating to the LGPS and the Fund;
- **Face to face education sessions** – these are education sessions that are available on request for union representatives and activists, for example to improve their understanding of the basic principles of the scheme, or to explain possible changes to policies;
- **Pension Committee meetings** – a formal meeting of elected members, attended by senior managers, at which local decisions in relation to the scheme (policies, etc) are taken.

2.13 Policy on communication with elected members/the Pensions Committee

Our objectives with regard to communication with elected members/the Pensions Committee are to:

- ensure they are aware of their responsibilities in relation to the scheme;
- seek their approval to the development or amendment of discretionary policies, where required;
- seek their approval to formal responses to government consultation in relation to the scheme.

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Training sessions	Face to face	As and when required	Face to face or via the Employers Organisation for local government	All members of the Pension Committee as well as other elected members
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All members of the Pension Committee
Pension Committee Meetings	Meeting	Monthly/quarterly/half yearly	Members elected onto Pension Committee	All members of the Pension Committee

2.14 Explanation of communications

- Training Sessions – providing a broad overview of the main provisions of the LGPS, and elected members’ responsibilities within it;
- Briefing papers – a briefing that highlights key issues and developments to the LGPS and the Fund;
- Pension Committee meeting – a formal meeting of elected members, attended by senior managers, at which local decisions to the scheme (policies, etc.) are taken.

2.15 Policy on communication with pension section staff

Our objectives regarding communication with pension section staff are to:

- ensure they are aware of changes and proposed changes to the scheme;
- provide on the job training to new staff;
- develop improvements to services, and changes to processes as required;
- agree and monitor service standards.

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Face to face training sessions	Face to Face	As required	By arrangement	All
Staff meetings	Face to face	As required, but no less frequently than monthly	By arrangement	All
Attendance at seminars	Externally provided	As and when advertised	By email, paper based	All

2.16 Explanation of communications

- **Face to face training sessions** – which enable new staff to understand the basics of the scheme, or provide more in depth training to existing staff, either as part of their career development or to explain changes to the provisions of the scheme
- **Staff meetings** – to discuss any matters concerning the local administration of the scheme, including for example improvements to services or timescales
- **Attendance at seminars** – to provide more tailored training on specific issues.

2.17 Policy on communication with tax payers

Our objectives with regard to communication with tax payers are to:

- provide access to key information in relation to the management of the scheme;
- outline the management of the scheme.

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Pension Fund Report and Accounts	Paper based and on website	Annually	Post	All, on request
Pension Fund Committee Papers	Paper based and on website	As and when available	Post	All, on request

2.18 Explanation of communications

- **Pension Fund Report and Accounts** – details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers;
- **Fund Committee Papers** – a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

2.19 Policy on communication with the media

Our objectives regarding communication with the media are to:

- ensure the accurate reporting of Fund valuation results, the overall performance of the Fund and the Fund's policy decisions against discretionary elements of the scheme.

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Press releases	Paper based or electronic	Every three years following the valuation of the Fund, annually on the publication of the Fund accounts and as and when required for other matters	Post or email	Local press

2.20 Explanation of communications

- **Press releases** – provide statements setting out the Fund's opinion of the matters concerned (i.e. Fund valuation results).

2.21 Policy on communication with other stakeholders/interested parties

Our objectives regarding communication with other stakeholder/interested parties are to:

- meet our obligations under various legislative requirements;
- ensure the proper administration of the scheme;
- deal with the resolutions of pension disputes; and
- Administer the Fund's AVC scheme.

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Fund valuation reports R&A certificate Revised R&A certificates Cessation valuations	Electronic	Every three years	Via email	Her Majesty's Revenue and Customs (HMRC)/all scheme employers
Details of new employers in the Fund	Hard copy	As new employers are entered the Fund	Post	HMRC
Formal resolution of pension disputes	Hard copy or electronic	As and when a dispute requires resolution	Via email or post	Scheme member, representatives, PAS/Pensions Ombudsman
Completion of questionnaires	Electronic or hard copy	As and when required	Via email or post	HMRC/the Pensions Regulator

2.22 Explanation of communications

- Fund Valuation Reports – a report issued every three years setting out the estimated assets and liabilities of the Fund as well as setting out individual employer contribution rates for a three-year period commencing one year from the valuation date;
- Details of new employers – a legal requirement to notify both organisations of the name and type of employer entered the Fund (i.e. following admission of third party service providers);
- Resolution of pension disputes – a formal notification of pension dispute resolution, together with any additional correspondence relating to the dispute;
- Completion of questionnaires – various questionnaires that are received, requesting specific information in relation to the structure of the LGPS or the make-up of the Fund.

2.23 Performance Measurement - To measure the success of our communications with members, we use the following methods:

2.24 Review Process - We will review our communication policy to ensure it meets audience needs and regulatory requirements at least every three years. A current version of the policy statement will always be available on our website at www.barking-dagenham.gov.uk and paper copies will be available on request.

2.25 Timeliness - We will measure against the following target delivery timescales:

Communication	Audience	Statutory delivery period	Target delivery period
Scheme booklet / Brief Guide to the scheme	New joiners to the LGPS	Within two months of joining	Included with new joiner pack / day of joining the Council
Estimated Benefit Statements as at 31/03	Active members	On request	31 October of each year
Telephone calls	All	Not applicable	95% of phone calls to be answered within 30 seconds
Issue of retirement benefits	Active and deferred members retiring	Within two months of retirement	95% of retirement benefits to be issued with 5 working days of retirement
Issue of deferred benefits	Leavers	Within one months of withdrawal	Within one month
Transfers in	Joiners/active members	Within two months of request	Within one month
Issue of forms i.e. expression of wish	Active/Deferred members	N/A	Included within new joiner pack or upon request within five working days
Changes to scheme rules	Active/Deferred and pensioner members	as required	Within two months of the change coming into effect
Annual Pension Fund Report and Accounts	All	Within two months of request	Within five working days

2.26 Quality

<i>Audience</i>	<i>Method</i>	<i>To consider</i>	<i>Notes</i>
All member types	Annual paper base survey on completion of specific tasks	Service received during that task	One task to be chosen as and when required

2.27 Results

We will publish an overview of how we are performing when appropriate to active members. Full details will be reported to our Pensions Committee.

Appendix 6: Fund Actuarial Statement for 2019/20

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2017/18.

1. Description of Funding Policy

The 2019 triennial review of the Fund took place as at 31 March 2019 and the salient features of that review were as follows:

- The funding target is to achieve a funding level of at least 100% over a specific period;
- Deficit recovery period remained at 17 years in 2019;
- The key financial assumptions adopted at this valuation are:
 - Future levels of price inflation are based on the Consumer Price Index (CPI);
 - The resulting discount rate of 4.0% (4.1% as at 31 March 2016).
- Market value of the scheme's assets at the date of the valuation were £1,022 million;
- The past service liabilities at the rate of the valuation were £1,141 Million;
- The resulting funding level was 90% (77% as at 31 March 2016); and
- The use of an appropriate asset outperformance assumption is based on available evidence and is a measure of the degree of prudence assumed in the funding strategy.

The valuation has made assumptions about member longevity and has used the following average future life expectancies for pensioners aged 65 at the valuation date

Longevity Assumptions	2016	2016	2019	2019
at 31 March	Male	Female	Male	Female
Average future life expectancy (in years for a pensioner)	22.0	24.7	21.3	23.4
Average future life expectancy (in years) at age 65 for non-pensioner assumed to be aged 45 at the valuation date	24.0	26.4	22.3	24.9

The key financial assumptions adopted by the actuary for the valuation of members' benefits at the 2019 valuation are set out below:

Financial Assumptions (p.a.)	31 March 2016	31 March 2019
Benefit increases and CARE revaluation (CPI)	2.1%	2.3%
Salary increases	2.6%**	3.0%**

*CPI plus 0.4%

**CPI plus 0.7%

Funding level and position

The table below shows the detailed funding level for the 2019 valuation:

Employer contribution rates	As at 31 March	
	2016	2019
Primary Rate (net Employer Future Service Cost)	18.2%	19.8%
Secondary Rate (Past Service Adjustment – 17 year spread)	6.8%	3.0%

Total Contribution Rate

25.0%	22.8%
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The Primary rate above includes an allowance for administration expenses of 0.5% of pay. The employee average contribution rate is 6.6% of pay. The table below shows the funding position as at 31 March 2019.

Past Service Funding Position at 31 March	As at 31 March 2016 £m	As at 31 March 2019 £m
Past Service Liabilities		
Employees	(324)	(323)
Deferred Pensioners	(221)	(287)
Pensioners	(456)	(531)
	<u>(1,001)</u>	<u>(1,141)</u>
Market Value of Assets	772	1,022
Funding Deficit	<u>(228)</u>	<u>(119)</u>
Funding Level	<u>77%</u>	<u>90%</u>

Total contribution rate

The table below shows the minimum total contribution rates, expressed as a percentage of pensionable pay, which was applied to the 2019/20 accounting period:

Scheduled Bodies	Rate %	Admitted Bodies	Rate %
LBBB	23.5	Aspens	31.3
Barking College	25.3	Aspens 2	36.1
Dorothy Barely Academy	18.7	B&D Citizen's Advice Bureau	43.0
Eastbury Academy	23.6	BD Corporate Cleaning	27.8
Elutec	20.0	BD Schools Improvement Partnership	27.7
Goresbrook Free School	15.6	BD Together	27.8
Greatfields Free School	23.5	BD Management Services	27.8
James Cambell Academy	22.8	Be First	27.0
Partnership Learning	21.9	Cleantech	28.1
Pathways	23.7	Caterlink	34.0
Riverside Bridge	17.7	Elevate East London LLP	21.3
Riverside Free School	17.6	Laing O'Rourke	28.1
Riverside School	17.3	Lewis and Graves	23.5
St Joseph's Dagenham	26.0	Schools Offices Services Ltd	24.4
St Joseph's Barking	24.6	Sports Leisure Management	22.2
St Margarets Academy	23.0	The Broadway Theatre	31.1
St Theresa's Dagenham	28.7	Town and Country Cleaners	24.7
Sydney Russell	20.5		
Thames View Infants Academy	18.1		
Thames View Junior Academy	20.0		
University of East London	28.6		
Warren Academy	24.4		

2. Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report.

Method: The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions: A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
	% p.a. Nominal
Discount rate	4.0%
Pay increases	3.0%
Price inflation/Pension increases	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.3 years	23.4 years
Future Pensioners*	22.3 years	24.9 years

*Currently aged 45

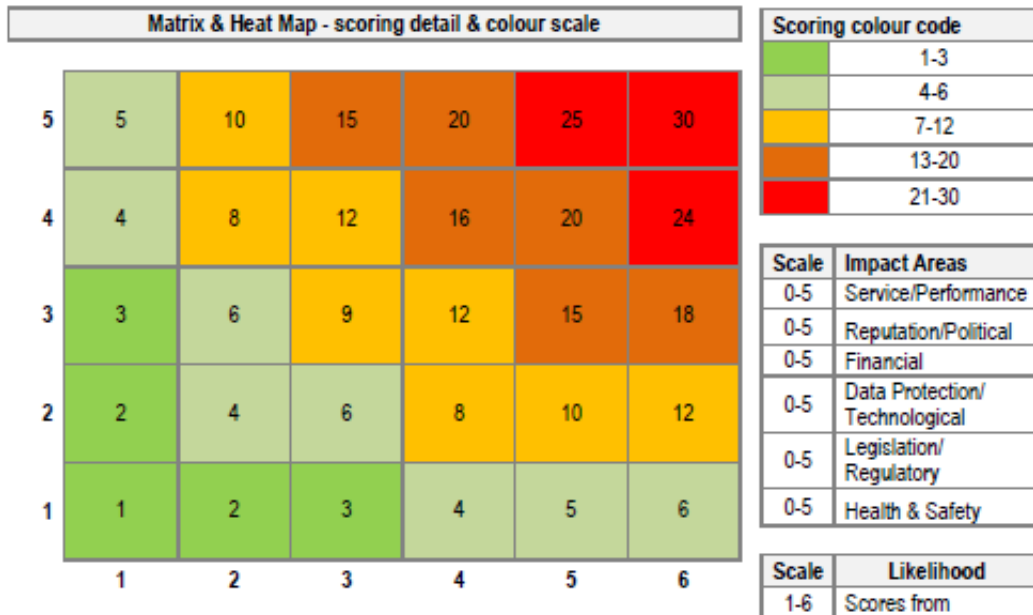
Copies of the 2019 valuation report and Funding Strategy Statement are available on request from London Borough of Barking and Dagenham, the administering authority to the Fund.

Barry Dodds FFA
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP

Appendix 8: Pension Fund Risk Register

Key to the risk / impact

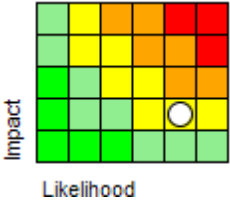
Scores between 0 and 5 are attributed to the impact of the risk. Scores between 0 and 5 are attributed to the likelihood of the risk from extremely unlikely (1) to extremely likely (6). The scores for each risk are combined and assigned red, amber or green in the heat map in accordance with the table below.



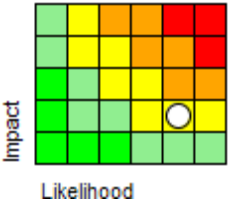
1 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Underlying financial information is incorrect	Information contained in Report & Accounts is inaccurate due to poor financial controls and recording of financial information leading to qualification of accounts and inaccurate valuations with financial and reputational impact	Finance		Reviewed August 2018 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Underlying financial information incorrect: Monitoring Reconciliations of key financial transactions.	Quarterly & annual reconciliations of all accounting data. Monthly reconciliation of cash book, bank accounts.	David Dickinson Jesmire Anwar	Philip Gregory	30 June 2021	Reviewed August 2018 - controls ongoing

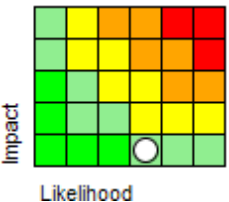
2 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
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Poor stakeholder engagement	Poor communication with stakeholders giving rise to disaffection and actions against Council	Finance		Reviewed August 2018
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Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Poor stakeholder engagement and giving rise to disaffection and actions against Council	Annual Newsletter on Pension Fund, updates to any changes to scheme Website, presentations. Employer meetings, communications strategy AGM. Pension Specific Website. Increase in FTE.	David Dickinson, Justine Spring	Philip Gregory	30 June 2021	Reviewed August 2019

3 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Reliance on External Systems	Reliance on external systems in all aspects of Pensions which includes Lloyds, State Street, Fund Managers, Heywood, Logotech. Failure of systems could result in significant issues.	Finance		Updated April 2018 - risk merged with several separate risks which dealt with risks to individual systems. Systems failure impacts all areas of Pensions.

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
BCP and manual processes	BCP includes use of manual process in emergency, backing up of records, working from home etc. The administration is provided through a hosted environment with a number of disaster recovery options.	David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018

4 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Recruitment and retention of experienced Treasury and Pensions staff	The Authority is unable to recruit or retain experienced or suitably qualified staff because the salaries offered are not competitive, the working environment is unattractive or the authority has a bad reputation as an employer.	Finance		Reviewed August 2018

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Continuity of team and ability to cover different roles plus appropriate pay levels	Ensure continuity by having other members of the team able to cover essential functions. Benchmarking of salaries for the section both against other local authorities and private sector.	David Dickinson Justine Spring	Philip Gregory	30 June 2021	Reviewed August 2018- ongoing with controls in place
Detailed policies and procedures in place to enable others to take on key tasks	Ensure policies and procedure notes which enable others to take on key roles. Involvement different team members to ensure specialist knowledge not confined to a few individuals	David Dickinson Justine Spring	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing with controls in place

5 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Pension Overpayments	Pension Overpayments arising because of non-notification of death, re-employment, or ceasing education. This has financial and reputational consequences.	Finance		Reviewed August 2018 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Pension Fraud: NFI & Tell Us Once	Management of NFI matches and follow up. Checks through other companies that carry out data checks. A tracing agent appointed to run quarterly reports on members to ensure the pension fund database is up to date and prevent overpayments of pensions.	David Dickinson Justine Spring	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing

6 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Management of Third Party Contracts – lack of control could result in financial and reputational risks	Pensions manage in excess of 20 external contracts, which carry significant financial and reputational risks if not managed appropriately - for example leading to higher costs or legal challenges,	Finance		Fund managers' performance actively reviewed quarterly. Benchmarking undertaken and research undertaken. Reviewed August 2018 - ongoing

7 Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Contract Monitoring and Service Level Agreements	Regular monitoring of key contracts, including performance monitoring, service level agreements, reviewing internal controls reports	David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Market Testing of contracts and benchmarking	Market testing of contracts through procurement exercises and/or benchmarking of costs regularly	David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Market Intelligence gathering	Regular reviews of developments in the market place to ensure the section maintains up to date knowledge and can act on market intelligence such as changes to financial standing	David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing

8 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Increased Longevity	Pensioners living longer, drawing pensions for longer than accounted for within the funding position leading to increasing liabilities giving rise to higher costs and major financial implications. Longevity Risk.	Finance		Reviewed August 2018 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
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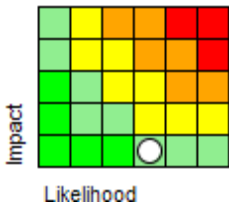
Monitoring of Pension Fund position	Controls in place to monitor developments with Fund Actuary and Triennial valuations, targeting increased funding level to manage increased longevity. A flight path structure will be developed and implemented during the year to allow opportunities in funding level to be acted on.	David Dickinson Justine Spring	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Raising retirement ages to match increasing longevity	Scheme retirement age of State Pension Age changes Retirement and a linking of future increases in longevity with increasing retirement age, then it would be possible to downgrade this risk rating.	David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Fund profiling to monitor specific experience	Club Vita membership to annually monitor the LBBB specific fund longevity profile	David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing

9 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Asset/Liability mismatch	Assets and liabilities impacted by investment performance. Assets could fail to increase at the same rate as liabilities giving rise to a larger deficit and therefore increased cost to the Pension Fund	Finance		Reviewed April 2018 - Risk likelihood has increased slightly as this has actually happened, and otherwise the risk is ongoing

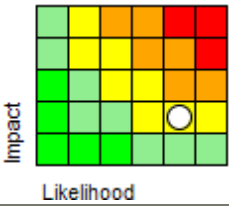
Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Asset allocation reviews	Controls in place to monitor assets and liabilities of the pension fund and to review asset allocation on a regular basis to ensure it remains appropriate.	David Dickinson Jasmine Anwar	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Use of external advisers	Actuarial and investment advisor advise the Fund on how to manage the asset/liability mismatch	David Dickinson Jasmine Anwar	Philip Gregory	30 June 2021	Reviewed August 2018 – ongoing. T tender towards the end of 2018
Strategic goal Setting	Set strategic goals to achieve full funding, set targets to make changes to the assets when appropriate.	David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 – ongoing but next main review after the 2019 triennial valuation

10 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Investment Performance	Poor investment performance either as a result of the types of assets invested in or performance of individual fund managers.	Finance		August 2018 - Risk reviewed and ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Medium Term Financial Planning	MTFP / Budget reflects any potential changes arising (or predicted to arise) from the actuarial valuations.	David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Set aside reserves	Rebuilding Pensions reserve to buffer against future valuations variations.	David Dickinson Jesmine Anwar	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Performance Monitoring	Regular monitoring of asset allocation, monitoring of investment performance of fund managers to ensure both are on target to achieve the targeted returns.	David Dickinson Jesmine Anwar	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Appropriate levels of knowledge and skills to make decisions	Use of external advisers to assist in making investment decisions and ensuring that decision takers understand the investments of the fund	David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Derisking of Fund when appropriate	At various staged the Pension Fund will be in a better funding position and a strategy is in place to allow the Fund to take advantage of these opportunities when they arise.	David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing

11 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Poor Membership Data	Poor administration by the Pension Fund, employers and payroll providers participating in the Fund giving rise to inaccurate data – causing financial, reputational risks, actuary unable to set contribution rates, higher contribution rates, member dissatisfaction, inaccurate benefit statements produced, overpayment etc	Finance		Reviewed August 2018 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Monitoring of membership data	Controls – annual monitoring of membership records, valuation checks, external data validations	David Dickinson Justine Spring	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Contributions monitoring	Monthly monitoring of contributions to ensure that employers paying across correct contributions along with membership data being supplied	David Dickinson Justine Spring	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing

12 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Discretionary Policies	Regulations allow the Pension Fund and employers certain areas where they are able to exercise discretion. Risk is where policies are too generous or not robust enough leaving the Pension Fund and employers exposed to higher costs and reputational risks	Finance		Reviewed August 2018 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Discretionary Policies in place	Controls – Agreed policies and procedures to control such risks.	David Dickinson Justine Spring	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing

Awareness of employers	Ensuring that employers are aware of the additional costs that could arise from the exercise of their discretions or lack of policy.	David Dickinson Justine Spring	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
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13 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Regulatory Risks	Regulatory Risks encompass both compliance with existing legislation and regulatory changes – this particularly affects LGPS 2014 changes, pension auto-enrolment and Jackson reforms for insurance	Finance		Reviewed August 2018 - The Investment Regulations 2016 removed some of the existing prescriptive means of securing a diversified investment strategy and placed the onus on authorities to determine the balance of their investments and take account of risk. The Secretary of State has the power to intervene to ensure the more flexible legislation is used and the guidance on pooling is adhered to.

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Regulatory Changes – monitoring developments and responding to changes	Monitor proposed changes and respond to consultations to influence outcome. Amend systems, processes to ensure compliance, use of specialist advisors to prepare for anticipated changes	David Dickinson Justine Spring	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Compliance with regulation policies	Ensure processes and policies in place to meet regulatory compliance	David Dickinson Justine Spring	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Compliance with regulation knowledge and skills	Ensure adequate training and specialist knowledge and skills for both staff and Members charged with governance	David Dickinson Justine Spring	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing

14 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Admission/Scheduled Body failures or deficits on termination	Risk employer goes into default, deficit on termination, change of status, financial risk	Finance		Updated August 2018 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Admission/Scheduled Body failures or deficits on termination	Controls – valuation and Intervaluation monitoring, monitoring of contributions, employer covenant check, putting bonds/guarantees in place for admission bodies. Ensure funding levels remain high for individual employers.	David Dickinson Justine Spring	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing

15 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
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Pension Administration Risk	Risks arising from administration of pensions by employers, the administering authority and the pension administrator. Poor administration could lead to incorrect pension payments, financial and reputational damage	Finance		Updated August 2018 - ongoing
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Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Clear policy and procedures for the administration of pensions	Ensuring there are detailed policies and procedures for all parties involved in administering the pension scheme – Pension Administration Strategy	David Dickinson Justine Spring	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Monitoring of Performance	Benchmarking of performance against other authorities	David Dickinson Justine Spring	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing

16 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Pensions- Lack of adequate professional advice on strategies, projects and decisions	Decisions made in respect of Pensions can have a major financial impact on the Council and Pension Fund. Lack of adequate or inappropriate professional advice on strategies, projects and decisions could give rise to financial and reputational risks.	Finance		Updated August 2018 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Monitoring of advice	Controls – monitoring of advice received, risk assessment for procurements, Committee review of recommendations. Also ensure there is a good level of 'in-house expertise'.	David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Market intelligence gathering	Monitoring wider developments and ensuring that officers and Members are kept informed. Wider networking and collaboration with other authorities where appropriate to ensure best practice.	David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing

17 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Failure to manage costs	Failure to manage the costs of running the various services within Treasury and Pensions would give rise to significant additional financial costs for the Council along with reputational risks of poor value for money.	Finance		Reviewed Jan 18 - upgrade due to potential additional costs arising from regulatory changes LGPS 2016, Auto-Enrolment

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Budget Monitoring	Controls budget monitoring, performance fees, monthly budget monitoring, financial intelligence, etc	David Dickinson Jesmire Anwar	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing

Benchmarking	Benchmarking costs with other authorities to ensure costs for LBBD are not disproportionate	David Dickinson Jesmine Anwar	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Market Testing	Regular market testing of external costs which includes regular procurement exercises, assessing the market place for both pensions and insurance costs	David Dickinson Jesmine Anwar	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Frameworks/ Collaborative Working	Consider the use of Framework Agreements and other joint working where appropriate to control costs and to work with other authorities to deliver value for money and efficiency savings	David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing

18 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Pension Funding Risk	The fund is unable to meet its liabilities, due to a mismatch of assets/liabilities. The Funding position as at March 2017 showed 78% funding position. Further deterioration of the funding position from poor asset returns or increasing liabilities could result in the Council and other employers being required to make significant additional employer contributions.	Finance		Reviewed Jan 2018

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Medium Term Financial Planning	MTFP / Budget reflects any potential changes arising (or predicted to arise) from the actuarial valuations. Rebuilding Pensions reserve to buffer against future valuations variations. The current financial strategy ensures that the base budget anticipates changes to contribution levels.	David Dickinson Jesmine Anwar	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Pens - Valuation Monitoring	Triennial Valuation assesses the funding position, Intervaluation monitoring ensures that movements in the Funding position can be assessed and strategies to manage any deterioration are put in place.	David Dickinson Jesmine Anwar	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Identifying the external risk factors that affect the funding position	Identifying the various risk factors, asset/liability, investment, longevity, interest rates, inflation, liquidity, etc and how the interaction of these impacts on the funding position and adapting the strategy and business plans to manage these risk where feasible.	David Dickinson Jesmine Anwar	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Knowledge and Skills	Ensuring those charged with governance of the Fund and for managing the day to day operations have the requisite knowledge and skills to make informed decisions when managing the funding position	David Dickinson Jesmine Anwar	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Cash flow Monitoring	Quarterly monitoring of Pension Fund cashflows to ensure that there is sufficient cash inflows from contributions and income to meet the cash outflows from benefit and cost payments. This will also provide early warning of potential cashflow mismatch and possible changes to investment strategy. Longer term cash flow monitoring in conjunction with the Fund Actuary to establish trigger points for the Fund becoming cashflow negative.	David Dickinson Jesmine Anwar	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing

19 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Auto Enrolment Risk	Workplace Pensions or Auto-Enrolment. LBBD staging date was 01/04/2016 (with transitional arrangements pushing back full implementation to October 2017). Risks include increased costs for employers, failure to implement, lack of preparation, failure to communicate, inability to manage auto-enrol process and have adequate monitoring in place. Significant financial (including Regulator Fines) and reputational risks	Finance		Risk Reviewed May 2018.

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Auto Enrolment Risk Communications	Use of different forms of communications to reach wider possible audience to understand what A-E means for individuals and employers within the Pension Fund. Use of individual letters, presentations, internet, etc. Communications strategy to feed into project plan	Justine Spring, David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Auto Enrolment Risk System Enhancements	Review of existing systems both payroll and pension to ensure that they are able to cope with the implementation of A-E and to ensure that they are adequate to cope with the ongoing monitoring requirements.	Justine Spring, David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Auto Enrolment Risk Monitoring	Monthly monitoring of A-E to ensure all new employees are auto-enrolled and to ensure that any existing employees who were previously not eligible or who had previously opted out are auto-enrolled should their circumstances change. Use of payroll/ pension to ensure compliance with legislation.	Justine Spring, David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing

20 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Governance Risk	Governance is important in Pension Fund as it carries significant financial and reputational risks. It is therefore crucial that those charged with governance understand the full implications of the decisions which are being taken in these areas. Membership turnover on Committees poses risks due to lack of understanding of the responsibilities.	Finance		Risk added January 2018

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Governance Risk A – Knowledge and Skills Training Programme	Training programme for Committee Members to ensure that they have the requisite knowledge and skills to be in a position to question and understand the agenda and recommendations put before	David Dickinson Jesmire Anwar	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing

	them to make high level strategic decisions.				
Governance Risk B – Assessment	Committees to undertake assessment to ensure that their level of understanding is adequate for the decisions being made.	David Dickinson Jesmine Anwar	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Governance Risk C – S161 Responsibilities	CIPFA have issued a Code of Practice on the Knowledge and Skills Framework for the Pension Fund and the Section 151 Officer has responsibility for the implementation of its requirements. The COO will ensure that the Code is implemented and that a policy statement is included in the Annual Report & Accounts	David Dickinson Jesmine Anwar	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Governance Risk D – Succession Planning for Committee	Succession planning to ensure some continuity of Membership and the introduction of substitute members with access to suitable training will help to ensure that the knowledge base is maintained within Committees.	David Dickinson Jesmine Anwar	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing

21 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Procurement Risk	Treasury and Pensions is heavily reliant on the use of external contractors in all areas. All the contracts have to be tendered on a regular basis which brings procurement risks in terms of both timetables for procurement (often several procurements having to take place at the same time) and potential challenges to procurements.	Finance		Risk created Jan 2018

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Ensuring adequate resources	The Council will look to use external advisers to supplement internal resources when undertaking procurement exercises.	David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Timing of Procurements	Where feasible, procurement exercises will be spread across different time periods, although this is not always feasible.	David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Collaborate with other authorities	Where the timing and scope of procurement exercises are likely to coincide with other authorities and where practical to do, joint exercises including Frameworks will be undertaken.	David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing

22 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Internal Fraud within Team	Treasury and Pensions is involved in the management of large scale financial resources on behalf of the Council and there is a potential risk that the area could be subject to internal fraud leading to significant financial and reputational risks	Finance		Risk Reviewed April 2018

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Internal Fraud A – Policies and Procedures	Detailed policies and procedures and internal controls to ensure segregation of duties for key roles	David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Internal Fraud B – Internal Audit	Treasury and Pensions is subject to internal audit scrutiny on an annual basis with different areas being tested to ensure compliance.	David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing
Internal Fraud C – External Audit	All aspects of the work of Treasury and Pensions are subject to annual external audit covered by the audit of the Financial Statements with the Pension Fund also being subject to a separate audit opinion	David Dickinson	Philip Gregory	30 June 2021	Reviewed August 2018 - ongoing

Appendix 7: Pension Board Terms of Reference



**Pension Board
Terms of Reference**

London Borough of Barking and Dagenham Pension Board Terms of Reference

1. Introduction

- 1.1 This document sets out the terms of reference of the Local Pension Board (“the Board”) of The London Borough of Barking and Dagenham (the 'Administering Authority') a scheme manager as defined under Section 4 of the Public Service Pensions Act 2013. The Board is established in accordance with Section 5 of that Act and under regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended).
- 1.2 The Board is established by the Administering Authority and operates independently of the Pension Committee. Relevant information about its creation and operation are contained in these Terms of Reference (“ToR”).
- 1.3 The Board is not a committee constituted under Section 101 of the Local Government Act 1972 and therefore no general duties, responsibilities or powers assigned to such committees or to any sub-committees or officers under the constitution, standing orders or scheme of delegation of the Administering Authority apply to the Board unless expressly included in this document.
- 1.4 Except where approval has been granted under regulation 106(2) of the Regulations the Board shall be constituted separately from any committee or sub-committee constituted under Section 101 of the Local Government Act 1972 with delegated authority to execute the function of the Administering Authority.
- 1.5 The Board is not a decision making body in relation to the management of the Pension Fund (“the Fund”). The Fund’s management powers and responsibilities will remain delegated to the Pension Committee (“the Committee”). The Board will exercise its powers and duties in accordance with the law and this ToR.

2. Role of the Pension Board

- 2.1 The role of the Board is defined by regulation 106 (1) of the LGPS regulations as:
 - 1) to secure compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme and requirements imposed in relation to the LGPS by the Pensions Regulator (“the PR”);
 - 2) to ensure the effective and efficient governance and administration of the Fund.
- 2.2 The Council recognises that the Board’s main role will be that of having oversight of whether the aims and objectives outlined within the Fund's Governance and Administration strategies are being achieved; and having regard to any overriding requirements included within guidance from DCLG, and the Scheme Advisory Board.

2.3 The Board will ensure that in performing their role it is done effectively and efficiently and complies with relevant legislation. In addition the Board shall have due regard for the Code of Practice on the governance and administration of LGPSs issued by the PR and any other relevant statutory or nonstatutory guidance.

2.4 The Board will follow the Aon Hewitt method for governance review including:

1. Direction: What is the fund trying to achieve (legislation, strategy and policy);

2. Delivery: How the Fund meets its aims (planning, performance monitoring & risk management); and

3. Decisions: Does the Fund have effective decision making (governance structure, behaviour and Pension Skills and Knowledge and training).

2.5 The Board will review the “Direction” in June and the “Delivery and Decisions” in March.

2.6 The Board must provide minutes of each meeting to the following Committee and may make reports and recommendations to the Committee insofar as they relate to the role of the Board. Any such reports or recommendations must be provided at least 15 working days in advance of the next Committee to the Chief Operating Officer (“the COO”).

2.7 Where the Board considers that a matter brought to the attention of the Committee and the COO has not been acted upon or resolved to their satisfaction, the Board will provide a report to the next appropriate Assembly.

2.8 Establishment

The Board was established on 31 March 2015.

3. Composition of the Board and Appointments

3.1 Composition

The Board will consist of up to six members and be constituted as follows (substitutes for the Employer or Scheme Member Representatives are not permitted). There shall be an equal number of Member and Employer Representatives.

- i. Up to three Employer Representatives; and
- ii. Up to three Scheme Member Representatives.

3.2 Eligibility and selection criteria

- i. Three Employer Representatives: At least one of the employer representatives must be an employee of the Council. The second employer representative will be from one of the Fund's scheduled bodies.
- ii. Three Scheme Member Representatives: Representatives would preferably be members of the Fund (active, deferred or pensioner). Where the member representative is not a member of the Fund, they must have the requisite knowledge and skills to be able to represent the interests of the scheme members
- iii. The COO will define and keep under review any further eligibility and/or selection criteria that will apply to Board members.

3.3 Appointment of Members

The COO will manage the appointment process. Initial Board members will be direct appointments from Fund's current observers, who will fulfil the role of the two employee representatives and one employer representative. A representative from the Council's Legal department will also be directly appointed by the COO and will be the Council representative. The process to select replacement Board members is as set out below:

1. One Council Employer Representative: This will be a direct appointment by the COO.
2. Two other Employer Representatives: All the Fund's scheduled body employers will be invited to nominate individuals to represent employers on the Pension Board.
3. Two Member Representatives shall be appointed by the recognised trade unions representing employees who are scheme members of the Fund.
4. The third Member Representative shall initially be filled by the current Member Observer to the Pension Committee. Future appointments will be made following a nomination process open to all scheme members.
5. Nominations can be rejected where the individual does not appropriately meet the eligibility and/or selection criteria or where the number of nominations for any category of Board member merits a short-list being created for interviews.
6. Employer and Employee representatives should be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required.
7. The COO will agree the Board appointment process which may include, but is not restricted to, a formal interview. Where there are no appropriate

nominations, the COO will take any other action consider appropriate, including leaving a position vacant.

3.4 Notification of appointments

When appointments to the Board have been made the Council shall publish the name of Board members, the process followed in the appointment together with the way in which the appointments support the effective delivery of the purpose of the Board.

4. Board Requirements and Support

4.1 Term of Office

The Employer and Scheme Member Representatives are appointed for a period of four years from the date of establishment of the Board or the date of their appointment if later. This period may be extended to up to four years if agreed by the COO. An appointment will automatically cease if an employer requests their removal or an employee representative asks to be removed.

Any Board member may be re-appointed for further terms following an appointment process. Other than ceasing requesting to be removed (as set out above) a Board member may only be removed from office during the term of appointment by the COO or by unanimous agreement of the Board. Such reasons may include non-compliance with these ToR including inappropriate conduct, conflicts of interest, avoidance of training or low meeting attendance.

As term dates may not be exact due to the period of the appointment process, the term date may be extended by up to three months with the agreement of the COO.

4.2 Quorum

All Board members are expected to regularly attend meetings. Records of attendance of all Members will be maintained and reported to the COO on an annual basis. A meeting of the Pension Board will be quorate when any three of the six Board members are present. A meeting that is / becomes at any point not quorate will cease immediately.

4.3 Location and Timing

The Board will normally meet at an office of the Council. Meetings will take place at any point on a Monday to Friday if it is a normal working day apart from in exceptional circumstances and agreed by all Board members and other individuals expected to attend the Board meetings. The Board will meet twice a year. The Chair may call, or agree to call, additional meetings in exceptional circumstances.

Urgent business of the Board between meetings may, in exceptional circumstances, be conducted via telephone conferencing and e-mails. A summary of these discussions will be reported at the following Board.

4.4 Receipt of advice and information

The Board will be supported in its role by officers and by advisors (where requested). In addition Board members will receive the final reports, minutes and agendas relating to all Committees and may attend Committees as observers (including during exempt items).

Insofar as it relates to the role of the Board, it may also request and receive information and reports from the Committee and examine decisions made or actions taken by the Committee. Any further requests for information and advice are subject to the approval of the COO who will be required to consider positively all reasonable requests in relation to the role of the Pension Board whilst being mindful of value for money.

4.5 Administration

The COO will agree an agenda with the Chair of the Board prior to each Board meeting. The agenda and any papers for the Board will be issued at least 5 working days (where practicable) in advance of the meeting except in the case of matters of urgency. High level minutes of each meeting including all actions and agreements will be recorded and circulated to all Board members within 10 working days after the meeting. These minutes will be subject to formal agreement by the Chair taking consideration of comments by Board members (which may be done electronically between meetings).

The minutes may, at the discretion of the Chair, be edited to exclude items on the grounds that they would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998.

4.6 Access to the Public and publication of Pension Board information

The following will be entitled to attend the entire Board meeting in an observer capacity:

- Any Members of the Committee;
- officers or advisers of the Council involved with the management of the Fund; or
- any other person requested to attend by the Chair of the Board or COO.

Any such attendees will be permitted to speak on request to the Chair. Members of the public may attend the public part of the meeting and papers will be made public in accordance with the Access to Information Procedure Rules in the Council's Constitution.

4.7 Accountability

The Board will be collectively and individually accountable to the Council.

5. **Conflicts of Interest**

5.1 Each member is required to have due regard to the role of the Board as outlined in the ToR. All members are expected to work jointly in the best interests of the Fund, putting aside any individual views of any stakeholders. This should not prevent members from sharing their knowledge on how matters might impact specific stakeholders of the Fund. Board members are expected to declare, on appointment and at each meeting, any interests which may lead to conflicts of interest (COI) in the subject area or specific agenda of that Board. The Board's Chair must be satisfied that the Board is acting within:

- the Public Service Pension Act and the LGPS Regulations COI requirements;
- accordance with any Fund COI Policy that apply to the Board; and
- the spirit of any national guidance or code of practice in relation to Board COI.

5.2 The LBBDCouncillors' Code of Conduct shall apply in relation to the management of conflicts of interest of the Board with the exception of the registration of pecuniary interests and how interests are to be disclosed which are detailed below.

5.3 Each Board member must provide the Chair with such information as he or she reasonably requires for the purposes of demonstrating that there is no COI. The COO will ensure that the Chair does not have a COI. A COI is defined in the Public Service Pensions Act as:

"in relation to a person, means a financial or other interest which is likely to prejudice the person's exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme)".

6. **Chair and Deputy Chair**

6.1 The COO will appoint a Chair and a Deputy Chair from the Board membership. If the COO does not consider any of the members to have the requisite knowledge and skills for the role of Chair at the point in time, they may appoint an Independent Member to the Board who will also undertake the role of Chair to the Board. The appointments to Chair and Deputy Chair will be reviewed at such times as considered appropriate by the COO.

6.2 The role of the Chair is to:

- Ensure all members of the Board show due respect for process, that all views are fully heard and considered and to determine that decisions are democratically made where consensus cannot be reached.
- Uphold and promote the purpose of the Board.
- Ensure Board members have the knowledge and skills as determined in the Fund's Training Policy and other guidance or legislation and maintain a training record.
- Agree the agenda and approve minutes for each Pension Board meeting.
- Maintain an attendance record and advise the Council on expenses to be paid.
- Write reports required by the Council on the work of the Board.
- Liaise with the COO on the requirements of the Board, including advanced notice for Council officers to attend and arranging dates and times of Board meetings.
- Other tasks that may be requested by the members of the Board, within the remit of the ToR and subject to agreement with the COO.
- Annually reviewing and reporting on the performance of the Board.

7. Voting

7.1 All Board members will have individual voting rights but it is expected the Board will, as far as possible, reach a consensus. Any other person attending a meeting will not have the right to vote. Voting results will be reported in the Board minutes.

8. Member Requirements

8.1 Knowledge and Skills

Under the requirements of the Pensions Act, Board members must be conversant with:

- a) the legislation and associated guidance of the LGPS; and
- b) any document recording policy about the administration of the LGPS adopted by the Fund.

In addition, a member of the Board must have knowledge and understanding of:

- The law relating to pensions, and

- Any other matters which are prescribed in regulations.

It is for Board members to be satisfied that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a Board member. In line with this requirement, Board members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date.

Board members are therefore required to:

- undertake a training needs analysis to identify gaps in competencies and knowledge;
- participate in training events (a record of relevant training will be maintained); and
- comply with the Fund's Training Policy insofar as it relates to Board members.

8.2 Standards of Conduct

The LBBD Councillors' Code of Conduct, as contained in the Council's Constitution, shall apply in relation to the standards of conduct of Board members as if they are Co-opted Members of the Council insofar as it can be reasonably considered to apply to the role of members of the Board and unless excluded elsewhere within these ToR.

8.3 Remuneration and Expenses

No allowances will be paid to Board members for attending meetings relating to Board business. Travel and all training costs will be funded by the Fund. Expenses must be reclaimed from the Fund through submitting claims, with all supporting evidence, to the following address:

Group Manager (Treasury and Pensions), Civic Centre, Dagenham, RM10 7BY

It is expected that employers of Representatives on the Pension Board will provide appropriate capacity to allow the Representative to perform this role within their normal working day without any reduction in pay.

All Board members will also be entitled to claim travel and subsistence allowances in accordance with the Members' Allowances Scheme in the Council's Constitution.

Expenses will only be paid if claimed by the representative and must be claimed within four weeks of each meeting or training session.

9. **Review, Interpretation and Publication of the ToR**

- 9.1 The ToR were agreed by the full Assembly of the London Borough of Barking and Dagenham on 24 February 2015. The Council will monitor and evaluate the operation of the Board and may review the ToR from time to time, with any changes made approved by the Assembly subject to the provisions of 9.2 below.
- 9.2 The Monitoring Officer is authorised to make minor amendments, consequential upon statutory or regulatory change, or to rectify errors, or to update arrangements consequential upon other external factors.
- 9.3 The ToR will be published in the Council's Constitution. The ToR will also form part of the Fund's Governance Policy and Compliance Statement which will be made available in accordance with the requirements of the LGPS Regulations.
- 9.4 These Terms of Reference were adopted by the Board on [27 July 2015].

.....
Signed on behalf of the Administering Authority

.....
Signed on behalf of the Board

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PENSIONS COMMITTEE

16 December 2020

Title: Administration and Governance Report	
Report of the Chief Operating Officer	
Public Report	For Information
Wards Affected: None	Key Decision: No
Report Author: Jesmine Anwar, Pension Fund Accountant	Contact Details: Tel: 020 8227 3763 E-mail: Jesmine.anwar@lbbd.gov.uk
Accountable Director: Philip Gregory, Finance Director	
Accountable Strategic Leadership Director: Claire Symonds, Acting Chief Executive	
Recommendations	
<p>The Committee is recommended to note:</p> <ul style="list-style-type: none"> i. The Independent Advisors LGPS Update ii. that the Fund is cash flow negative; iii. the Fund's three-year budget for the period 1 April 2020 to 31 March 2023; iv. the London CIV Update 	

1. Introduction

1.1 It is best practice for Members to receive regular administration data and governance updates. This report covers four main areas including:

- i. Independent Advisors LGPS Update
- ii. Pension Fund Budget 1 April 2020 to 31 March 2023;
- iii. Cash flow to 30 September 2020;
- iv. London CIV update

2. Independent Advisors LGPS Update

2.1 Introduction

This paper updates the Pensions Committee on developments relating to three important issues. Firstly, the restriction of public sector exit payments, otherwise known as the "Exit Cap" with a particular emphasis on its effects on the LGPS; Secondly, developments relating to the Good Governance in the LGPS project which have occurred since the last update, on this issue, to the Pensions Committee on 10 June 2020; Thirdly, it provides details of amendments to the

LGPS Regulations resulting from the Ministry of Housing, Communities and Local Government (MHCLG) Consultation “Changes to the Local Valuation Cycle and the Management of Employer Risk” which was issued in 2019 and which was covered in the LGPS Update presented to the Committee on 12 June 2019.

2.2 The “Exit Cap” and the LGPS

In 2015 the Government announced its intention to cap exit payments in the public sector. On the 14 October 2020 the Government approved The Restriction of Public Sector Exit Payments Regulations 2020 (‘the exit cap regulations’) and the Regulations came into force on 4 November 2020. These cap exit payments for the public sector (including local authorities) at a maximum £95,000. What constitutes an exit payment includes pension strain costs as well as statutory redundancy and discretionary payments but not contractual payments (provided Pay in Lieu of notice is less than 25% of annual pay).

Currently there is a conflict between the exit cap regulations and the LGPS Regulations if a scheme member aged 55 or over but under state retirement age is made redundant and the total exit payment exceeds £95,000. Regulation 30(7) of the Local Government Pension Scheme Regulations 2013 requires the member to take payment of an unreduced pension, but the Exit Cap Regulations prevent the Employer from paying the full strain cost. MHCLG are consulting on the required changes to the LGPS to bring those provisions in line with the Exit Cap Regulations. But it is unlikely those changes will be enacted until late January or early February to allow for the consultation period.

Therefore on 28 October 2020 Luke Hall MP the Minister for Regional Growth and Local Government at the MHCLG wrote to all Chief Executives stating that *“the recommended course of action for an administering authority to act consistently with its legal duties is that the provisions of Regulation 30(7) are subject to the cap...The Government’s view is that LGPS members...should be able to elect to receive an immediate but fully reduced pension or, if they do not so elect, a deferred pension...”*

Each administering authority (LGPS Fund) therefore needs to decide whether to pay an unreduced pension in line with regulation 30(7) or provide the option of either a deferred pension under regulation 6(1) or an immediate reduced pension under regulation 30(5) in line with the Government’s recommendations.

Both options contain risks pending legal clarification be that from the change in legislation (LGPS Regulations) and/or resolution of pending legal actions. Offering a deferred or reduced pension risks challenge, from the Member seeking to enforce their rights under Regulation 30(7). A decision to pay an unreduced pension (following the LGPS Regulations 2013 as though the Exit Cap does not apply), means a risk that the Administering Authority (Pension Fund) could end up in the position of having to try and recover monies from the Employer and/or the Member.

The Scheme Advisory Board has therefore stated (Update 30.10.2020, paragraph 18) that *“Given that clarity may only emerge following a challenge, the prudent course may be for the LGPS administering authority to state their intention to, and in the event of termination, offer the member a deferred pension or pay a fully reduced pension under LGPS regulation 30(5) and for the scheme employer to delay making any cash alternative payment until the inevitable claim is settled.”*

The above approach appears logical given that if an Administering Authority (LGPS Fund) were to pay an unreduced pension there is a risk that the Pension Fund could end up in the position of having to try to recover monies from the Employer and or the Member and that this would not prove successful. For example, the Employer is restricted to a maximum of £95,000 for all exit payments including the pension strain cost. The Scheme Advisory Board has suggested Employers do not pay any cash alternative to an Employee. If the Employer pays a cash alternative, they are unlikely to be able to pay any strain cost.

Therefore, Pension Funds and Employers have to make decisions in the light of some uncertainty until the legal position is fully resolved. It is understood that after considering the issues including the letter from Luke Hall MP of 28 October 2020, the legal advice obtained by the Scheme Advisory Board and the options the London Borough of Barking and Dagenham in its role as an Administering Authority (Pension Fund Authority) has determined to offer Employees a deferred or immediate fully reduced pension and that the Council in its role as an Employer has determined not to offer a cash alternative.

2.3 Good Governance in the LGPS project

As previously reported in detail in previous papers in 2019, March and June 2020 the Scheme Advisory Board for England and Wales (SAB) has been developing proposals to significantly enhance governance within the LGPS.

This project – The Good Governance in the LGPS project - is the most important development presently underway in the LGPS as it seeks to fundamentally enhance and strengthen the governance of the individual LGPS Funds across England and Wales (over 80 in total).

A Phase I report was produced by Hymans Robertson in July 2019 and a Phase II report by Hymans Robertson and two stakeholder Working Groups was considered by the SAB and issued in November 2019. This Phase II report included a broad range of proposals to enhance the governance of the LGPS across England and Wales. These included that each LGPS Fund have a single named Officer responsible for the delivery of all LGPS related activity – the “LGPS Senior Officer,” enhanced training requirements for Pension Committee members, that each LGPS Fund be required to report performance against a set of national Key Performance Indicators and that each LGPS Fund be subject to a bi-annual independent Governance Review with the results reported to and assessed by the Scheme Advisory Board.

At the meeting of the Scheme Advisory Board held on 3 February 2020 it was agreed that the two working groups who prepared the Phase II report be combined to form an Implementation Group. This group began its work in February 2020. In March an initial draft of the new Statutory Guidance on Governance in the LGPS and draft paper on the role of the LGPS Senior Officer were issued and circulated for comments. The social distancing restrictions introduced by the government in March prevented the group meeting in person and therefore in April 2020 the Scheme Advisory Board stood down the Implementation Group until further notice but asked the project team at Hymans Robertson to continue to work on papers for consideration by the Implementation Group once meetings again become viable.

Hymans Robertson have continued to work on the Good Governance project and momentum has increased again. Further work has been undertaken on draft papers including on the form of the independent Governance Review and the Key Performance Indicators (KPIs) to be utilised by all LGPS Funds as well as additional work on the role of the LGPS Senior Officer. Hymans Robertson have also engaged in discussions with individual Officers.

At the 2 November 2020 meeting of the Scheme Advisory Board (SAB) working papers on the LGPS Senior Officer role and the proposed KPIs were circulated. The introduction to these stated *“These working papers address 2 of the recommendations which the working groups identified need further detail before they can be implemented. Please note that these are draft working papers which set out the thinking and feedback received to date. Not all stakeholders have had an opportunity to comment on all areas and we recognise that different stakeholders have different views. These papers do not therefore at this stage represent a consensus position.”* A possible example of the new Governance Compliance Statement was also circulated, together with a possible example of the summary page of a report issued under the proposed independent Governance Review arrangements.

It was recommended that the SAB agree these four working papers along with other relevant materials be circulated to the Implementation Group, Treasurer’s groups and other relevant parties for comment. It was further recommended that finalised proposals be presented to the February 2021 meeting of the SAB.

Once SAB has considered the finalised proposals, and possibly made any amendments it considers appropriate, it will then share these with the MHCLG. For proposals to become applicable to individual LGPS Funds this would require the MHCLG to consult on revised Statutory Guidance (and possibly some changes to the actual LGPS Regulations), consider responses to the Consultation and issue final guidance/regulations.

The MHCLG were represented on the Phase II Working Groups and are on the (Phase III) Implementation Group. A senior representative from MHCLG also attends the meetings of the Scheme Advisory Board. Therefore, the proposals of the Good Governance in the LGPS project are likely to be adopted, eventually, by the MHCLG and compliance with them required of LGPS Funds through the issuing, in due course, of new Statutory Guidance on Governance in the LGPS (and if necessary, amendment to the LGPS Regulations).

It is very difficult, however, to suggest when the proposals of the Good Governance in the LGPS project may become mandatory on individual LGPS Funds such as Barking and Dagenham. Once MHCLG issues a Consultation a period of six months might be anticipated for the actual Consultation (likely 13 weeks), consideration of responses and issuing of the final Statutory Guidance (and if necessary, any amendments to the LGPS Regulations). This period however could be longer. Furthermore, as the paper to the SAB of 2 November 2020 states *“Board members also need to be mindful of the strong statement from MHCLG that in view of other competing priorities, eg, 95k Cap and McCloud remedy, they are unlikely to be able to devote any time to the good governance project over the next six months or so.”* Consequently, it would seem unlikely that the MHCLG will issue any Consultation on the Good Governance proposals until the late spring/summer of 2021 at earliest.

Therefore, it would seem that the proposals will not become mandatory on individual LGPS Funds until late 2021 at earliest but much more likely not until sometime in 2022.

2.4 Amendments to the LGPS Regulations resulting from the Ministry of Housing, Communities and Local Government (MHCLG) Consultation “Changes to the Local Valuation Cycle and the Management of Employer Risk”

The LGPS Update report presented to the Committee at its meeting held on 12 June 2019 included a section describing and explaining the proposals in the Consultation issued by MHCLG on 8 May 2019 entitled “Changes to the Local Valuation Cycle and the Management of Employer Risk.” This Consultation closed on 31 July 2019.

No response was issued by the MHCLG until early 2020 when a first partial response was issued. This resulted in the Local Government Pension Scheme (Amendment) Regulations 2020 which came into force on 20 March 2020 but have effect from 14 May 2018. This gives Administering Authorities such as the London Borough of Barking and Dagenham certain additional discretions regarding the value of exit payments which may be paid to an Employer leaving a LGPS Fund.

A second partial response was issued on 26 August 2020. This included reference to the need for new regulations to allow Administering Authorities to manage and mitigate risk in the context of COVID-19. Consequently, the Local Government Pension Scheme (Amendment) (No. 2) Regulations 2020 came into force on 23 September 2020. These are concerned with three issues:

- The review of Employer contributions by the Administering Authority – The Administering Authority now has greater ability to review Employer Contributions between Actuarial Valuations where there has been a significant change to the liabilities or covenant of an Employer.
- The spreading of Exit Payments – This expressly permits the Administering Authority the discretion to allow an Employer to spread exit payments to be paid to the Fund over a period it “considers reasonable.”
- Deferred Debt Agreements – The Administering Authority “may enter into a deferred debt agreement” with an exiting Employer in certain circumstances. Where an Employer ceases to employ any active members the Administering Authority, at its discretion, may permit the deferment of any due exit payment and instead permit the payment of regular (“secondary rate”) contributions to cover the exit payment due. A Deferred Debt Agreement may be terminated in a number of circumstances including where “...the administering authority is reasonably satisfied that the deferred employer’s ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months.”

As at 1 December 2020 the MHCLG were still to publish its response to the other matters in the Consultation including proposed changes to the LGPS Actuarial Valuation Cycle and proposed changes to the requirements for some Education sector Employers to offer LGPS membership to their new non-teaching Employees.

In the light of the Local Government Pension Scheme (Amendment) Regulations 2020 and the Local Government Pension Scheme (Amendment) (No. 2) Regulations 2020 the London Borough of Barking and Dagenham Pension Fund should review its Funding Strategy Statement (FSS). This should be undertaken with the advice of the Fund Actuary, Barnett Waddingham, and consider the issues of Exit Credits, review of Employer Contributions, spreading Exit Payments and Deferred Debt Agreements.

Resulting proposed changes to the FSS will, in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 and the Statutory Guidance of 2016 issued by CIPFA on behalf of the MHCLG, need to be consulted upon with such persons as the Pension Fund “considers appropriate.” The Statutory Guidance of 2016 issued by CIPFA (page 25) states “this must include a meaningful dialogue” with all Employers in the Fund. Following such consultation any final proposed revisions to the FSS will need to be considered and formally approved by the Pensions Committee.

3. Pension Fund Budget 1 April 2020 to 31 March 2023

3.1 Table 1 provides Members with the Fund’s three-year budget to 31 March 2023.

Table 1: Pension Fund Budget 1 April 2020 to 31 March 2023

Contributions	2020/21 Budget	2021/22 Budget	2022/23 Budget
Opening Market Value	974,493	1,012,293	1,050,243
Employee Contributions			
Council	6,800	6,600	6,400
Admitted bodies	1,000	900	800
Scheduled bodies	1,950	2,000	2,050
Employer Contributions			
Council	21,000	22,000	23,000
Admitted bodies	4,000	3,750	3,500
Scheduled bodies	7,250	7,400	7,500
Pension Strain	1,000	1,000	1,000
Transfers In	2,500	2,500	2,500
Total Member Income	45,500	46,150	46,750
Expenditure			
Pensions	-36,500	-37,500	-38,500
Lump Sums and Death Grants	-7,000	-6,500	-6,500
Transfers Out	-2,500	-2,500	-2,500
Administrative expenses	-700	-700	-700
Total Expenditure on members	-46,700	-47,200	-48,200
Net dealings with members	-1,200	-1,050	-1,450
Returns on Investments			
Investment Income	7,500	7,500	7,500
Profit (losses)	35,000	35,000	35,000
Investment management expenses	-3,500	-3,500	-3,500
Net returns on investments	39,000	39,000	39,000
Net increase (decrease) in assets	37,800	37,950	37,550
Closing Market Value	1,012,293	1,050,243	1,087,793

- 3.2 The three-year budget shows a movement from members being employed by the Council to being funded by admitted bodies as staff move across to the various companies set up by the Council. The forecast is for the Council contribution to increase as the rate increases from 21.0% in 2020/21, 22.0% in 2021/22 and 23.0% in 2022/23. Admitted body contribution will initially increase, but as the admitted bodies are closed to new entries, their contributions will decrease over time. Due to these changes, the overall member income will decrease in 2021/22 and 2022/23.
- 3.3 An increase in death grant payments is projected in 2020/21. Pension payments are forecast to increase due to an increase in the number of pensioners as well as to reflect a pension increase of 1.7% for 2020/21.
- 3.4 Overall the Fund is expected to be cashflow negative for net dealings with members but cashflow positive if investment income and management expenses are included. Officers will be working with the fund managers over the coming year to establish a process to utilise the income from property and infrastructure to fund any cash flow shortfalls.

4. Cash flow to 30 September 2020

- 4.1 Table 2 below provides Members with the Fund's Cash flow to 30 September 2020.

Table 2: Actual Pension Fund Cash Flow to 30 September 2020

	2020/21 Budget £000's	2020/21 Actual £000's	Over / Under £000's
Contributions			
Employee Contributions			
Council	6,800	7,300	500
Admitted bodies	1,000	700	-300
Scheduled bodies	1,950	1,960	10
Employer Contributions			
Council	21,000	22,900	1,900
Admitted bodies	4,000	2,700	-1,300
Scheduled bodies	7,250	7,800	550
Pension Strain	1,000	1,000	0
Transfers In	2,500	2,600	100
Total Member Income	45,500	46,960	1,460
Expenditure			
Pensions	-36,500	-35,600	900
Lump Sums and Death Grants	-7,000	-6,900	100
Payments to and on account of leavers	-2,500	-6,200	-3,700
Administrative expenses	-700	-700	0
Total Expenditure on members	-46,700	-49,400	-2,700
Net additions for dealings with members	-1,200	-2,440	-1,240
Returns on Investments			
Investment Income	7,500	7,500	-
Profit (losses)	35,000	35,000	-
Investment management expenses	-3,500	-3,500	-
Net returns on investments	39,000	39,000	-
Net increase (decrease) in the net assets	37,800	36,560	-1,240

Asset Values	1,012,293	1,121,611	
Liabilities	-1,189,704	-1,280,706	
Funding Level	85.1%	87.6%	

5. London CIV Update

- 5.1 The London Collective Investment Vehicle is the first fully authorised investment management company set up by Local Government. It aims to be the LGPS pool for London to enable Local Authorities to achieve their pooling requirements.
- 5.2 Having set up in 2015, CIV launched a number of funds which were seeded by London Borough Pension Funds. At 30 September 2020, London CIV assets under management was £9.6 billion which is a rise of 7% compared to the previous quarter. Most of this increase is due to investments into the Global Equity Core Fund.
- 5.3 The table below provides members with a breakdown of the LBBD Pension Funds holdings in LCIV as at 30 September 2020.

Fund	Manager	Value of Holdings (£)	% of Pension Fund
Global Alpha Growth Fund	Baillie Gifford	275,139,453	24.5%
Real Return Fund	Newton	75,671,120	6.7%
Global Total Real Fund	Pyrford	105,363,797	9.4%
Total		435,974,687	40.6%

- 5.4 The funds passive investment can also be accessed via the London CIVs passive equity fund, however there is a cost to transfer so the fund remains invested with UBS.

6. Consultation

- 6.1 Council's Pension Fund governance arrangements involve continuous dialogue and consultation between finance staff and external advisers. The Finance Director and the Fund's Chair have been informed of the commentary in this report.

7. Financial Implications

Implications completed by: Philip Gregory, Finance Director

- 7.1 The Pension Fund is a statutory requirement to provide a defined benefit pension to scheme members. The management of the administration of benefits the Fund is supported and monitored by the Pension Board.

8. Legal Implications

Implications completed by: Dr. Paul Feild Senior Governance Solicitor

- 8.1 The Council operates the Local Government Pension Scheme which provides death and retirement benefits for all eligible employees of the Council and organisations which have admitted body status. There is a legal duty fiduciary to administer such funds soundly according to best principles balancing return on investment against risk and creating risk to call on the general fund in the event of deficits. With the returns of investments in Government Stock (Gilts) being very low they cannot be the primary

investment. Therefore, to ensure an ability to meet the liability to pay beneficiaries the pension fund is actively managed to seek out the best investments. These investments are carried out by fund managers as set out in the report working with the Council's Officers and Members.

- 8.2 This report refers to the recent Supreme Court decision in R (on the application of Palestine Solidarity Campaign Ltd and another) (Appellants) v Secretary of State for Housing, Communities and Local Government (Respondent). Its implications are considered.
- 8.3 It related to a judicial review of Guidance issued by the Secretary of State on preparing and maintaining an Investment Strategy Statement. The Guidance was issued pursuant to regulation 7(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016/946) ("the 2016 Regulations"), and to take effect when the regulations did so, on 1 November 2016. The Guidance was entitled: "Local Government Pension Scheme: Guidance on Preparing and Maintaining an Investment Strategy Statement".
- 8.4 The guidance contained new stipulations designed to prohibit LGPS funds from pursuing boycotts, divestment and sanctions against foreign nations and UK defence industries. This guidance was challenged on the basis that the Secretary of State had exceeded his authority in that the power to issue guidance was limited to the purpose of the legislation creating the power. The challenge was successful in the High Court and so the Secretary of State appealed to the Court of Appeal where he won as the Court reversed the High Courts decision. A further appeal was then entered to the Supreme Court (the replacement to the House of Lords and the highest court in the land). Here the objectors to the Guidance were successful by a majority 3 to 2 judges who held that the guidance extended to matters outside the Secretary of States authority to give guidance. It was determined that the position was that the Secretary of State sought to promote the government's own wider political approach, by insisting that, in two particular contexts related to foreign affairs and to defence, administering authorities could not refrain from making particular investments on non-financial grounds, regardless of the views held by the scheme members. The flaw according to the majority was that the position was that judgements about non-financial considerations in investment decisions were for administering authorities not the Secretary of State to take. Administering authorities may take non-financial considerations into account provided that in doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.
- 8.5 In terms of direct implications, the guidance will need to be changed or at least amended. However, for practical purposes it has no specific impact for Barking and Dagenham as the administering authority has no stated intentions with regards to foreign policy or UK defence and within its investment strategy.

9. Other Implications

- 9.1 There are no other immediate implications arising from this report though the Public Service Pensions Act changes will have an impact on the short and long-term workload of the Pension Fund. This will continue to be monitored.

Background Papers Used in the Preparation of the Report:

The Statutory Guidance of 2016 issued by CIPFA

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PENSIONS COMMITTEE
16 December 2020

Title: Business Plan Update 2020/21	
Report of the Chief Operating Officer	
Public Report	For information
Wards Affected: None	Key decision: No
Report Author: Jesmine Anwar, Pension Fund Accountant	Contact Details: Tel: 020 8227 3763 E-mail: Jesmine.anwar@lbbd.gov.uk
Accountable Director: Philip Gregory, Finance Director	
Accountable Strategic Leadership Director: Claire Symonds, Acting Chief Executive	
Recommendations The Committee is asked to note progress on the delivery of the 2020/21 Business Plan actions in Appendix 1 to the report	

1. Introduction and Background

- 1.1 The purpose of this report is to update the Pension Committee on the progress of the Pension Fund's 2020/21 business plan. Appendix 1 provides a summary of the Business Plan actions from 1 January 2020 to 30 September 2020.
- 1.2 A Strategic Asset Allocation Review is being carried out by the funds Actuary and a full business plan for 2020/21 is being drafted alongside this. This will set out the key tasks for the Pension Committee in respect to the Pension Fund issues for 2021/22 and will be taken to Pensions Committee in December 2020 for members agreement.

2. Comments of the Finance Director

- 2.1 The Business Plan will include the major milestones and issues to be considered by the Committee and includes financial estimates for the investment and administration of the fund and appropriate provision for training.
- 2.2 The key actions, the date they were completed and by whom are summarised in the Business Plan Update report.

3. Comments of the Legal Officer

- 3.1 The Committee has been constituted by the Council to perform the role of administering authority to manage the Fund and as such has legal authority to make the decisions sought by the recommendations. Committee Members have a legal responsibility for the prudent and effective stewardship of LGPS funds, and in more general terms, have a fiduciary duty in the performance of their functions.

List of appendices: Appendix 1 - Business Plan Update

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Business Plan Update

Month	Action Scheduled	By	Actual Activity
Jan 20	Fund Manager Meetings:		
	<ul style="list-style-type: none"> Schroders 	Officers	Meeting held with Schroders on 7 th January 2020
	Meet the Manager: Baillie Gifford (BG)	Officers	Session with LCIV and BG attended on 16 th January 2020
	Tender for Actuary and Investment Advisor	Officers	Invitation to tender issued
Feb 20	IAS 19 Data Collection (LBBB)	Officers	Submitted to Hymans Robertson
	Fund Manager Meetings:		
	<ul style="list-style-type: none"> Equities: Kempen 	Officers	Meeting held with Kempen on 5 th February 2020
	<ul style="list-style-type: none"> Equities: UBS 	Officers	Meeting held with UBS on 27 th February 2020
	Tender for Actuary and Investment Advisor	Officers	Interviews held on 24 th and 26 th February 2020
Mar 20	Fund Manager Meetings:		
	<ul style="list-style-type: none"> Equities: Aberdeen Standard 	Officers	Meeting held with Aberdeen Standard on 3 rd March 2020
	Quarterly Pension Committee Meeting	All	Held on 11 th March 2020
	Appointment of new Investment Advisor and Actuary	Officers	Contract to commence on 1 st April 2020 and 1 st July 2020 respectively
Apr 20	IAS 19 Results	Officers	To be included in Council's accounts
	Closure of Accounts	Officers	
	Fund Manager Meeting:		
	<ul style="list-style-type: none"> Baillie Gifford 	Officers	Meeting held on 22 nd April 2020
	<ul style="list-style-type: none"> Global Credit: BNY Standish 	Officers	Meeting held on 17 th April 2020
May 20	Closure of Accounts	Officers	
	Fund Manager Meetings:	Officers	
	LCIV Business Update	Officers	Meeting held on 21 st May 2020
Jun 20	Quarterly Pension Committee Meeting	All	Held on 10 th June 2020
	Cash Flow Report to June Committee	Officers	Presented in June Committee

	Investment Beliefs Session	Members	Presented in June Committee
Jul 20	Strategic Asset Allocation Review	Investment Advisor	On-going
	Review and update of 2020/21 Business Plan	Officers	On-going
	Review of Risk Register	Officers	On-going
	FRS102 Data Collection – UEL and Barking College	Officers	To be submitted in July
Aug 20	London CIV Business Update	Officers	Held on 20 th August
	FRS102 Data Collection – UEL and Barking College	Officers	Reports issued to the employers
	Draft Statement of Accounts produced	Officers	Deadline 31st August 2020
Sep 20	Quarterly Pension Committee	All	To be held on 16 th September 2020
	Draft Statement of Accounts to Sep Committee	Officers	Draft to be included in Sep Committee Papers
	Strategic Asset Allocation to be agreed in Committee	Members	Investment Advisors to attend Committee to present this
	FRS102 Data Collection – Academies	Officers	To be submitted in September
Oct 20	Fund Manager Meetings:		
	• Diversified Alternatives: Aberdeen Standard	Officers	Held on 16th October 2020
	• Infrastructure: Hermes	Officers	Held on 21st October 2020
Nov 20	Fund Manager Meetings:		
	• Credit: BNY Mellon	Officers	Held on 20 th November 2020
	• London CIV Business Update	Officers	Held on 19 th November 2020
	Pension Fund Annual Report		
Dec 20	Quarterly Pension Committee	All	To be held on 16 th December 2020
	Business Plan to be agreed in December Committee	Members	
	Fund Manager Meetings:		
	• Property: Schroders	Officers	Meeting to be held
	• Property: Blackrock	Officers	Meeting to be held

PENSIONS COMMITTEE**16 December 2020**

Title: London Borough of Barking and Dagenham Pension Fund Business Plan 2021 to 2023	
Report of the Strategic Director, Finance & Investment	
Public Report	For Information
Wards Affected: None	Key Decision: No
Report Author: David Dickinson, Group Manager Pensions and Treasury	Contact Details: Tel: 020 8227 2722 E-mail: david.dickinson@lbbd.gov.uk
Accountable Director: Philip Gregory, Director of Finance	
Accountable Strategic Director: Claire Symonds, Chief Operating Officer	
Summary: The Pension Fund Business Plan sets out the key tasks for the Pension Committee in respect to Pension Fund issues for the period 1 January 2021 to 31 December 2023 and reflects the Pension Committee's commitment to put into action the investment strategy and monitor procedures for the future to ensure that the Fund meets its objectives and complies with best practice. The intention is that the Business Plan will cover the triennial valuation cycle but will be reviewed annually.	
The Committee is asked to: 1. agree the Business Plan for 1 January 2021 to 31 December 2023, subject to amendments following matters raised on this agenda.	

London Borough of Barking and Dagenham Pension Fund

2021 to 2023 Business Plan



1 Introduction and Background

- 1.1. The Local Government Pension Scheme (“the LGPS”) is an occupational pension scheme that has been established by Act of Parliament and is governed by regulations made under the Superannuation Act 1972 and Public Service Pensions Act 2013. The London Borough of Barking and Dagenham Pension Fund (“the Fund”) is maintained under the Act.
- 1.2. The Fund is responsible for providing retirement and other benefits to employees of The London Borough of Barking and Dagenham (“the Council”). Fund membership is approaching 19,000 with 39 employers, including admitted and scheduled bodies. Administration of the Fund is the responsibility of the Council, which also has overall responsibility for the investment of the Fund’s assets and pension administration services to members of the Fund and their employers.
- 1.3. The publication of the Myners Report and the subsequent CIPFA “Principles for Investment Decision Making in the LGPS in the United Kingdom” (CIPFA’s Investment Code of Practice) and “Investment Decision Making and Disclosure”, recommends that the Section 151 officer prepare and submit to the Pension Committee (“the Committee”) an annual business plan (“the BP”) for the Fund.
- 1.4. The BP identifies and outlines the key tasks for the period 1 January 2021 to 31 December 2023, with progress reported on at each quarterly Committee. The key tasks identified reflect the Committee’s commitment to developing a suitable investment strategy and monitoring procedures for the coming year which meet the Fund’s objectives and complies with best practice.
- 1.5. The BP outlines the operation of the Fund and includes provision for training and development. The proposed training and development will equip Committee Members with the necessary skills to make informed decisions on the Fund’s investments.
- 1.6. CIPFA recommends that all Committee Members should have the necessary skills and knowledge to adequately fulfil their governance and fiduciary duties to the Fund Members. This is also a requirement of the Pensions Regulator, who from time to time, monitors compliance with this requirement. In addition, as a result of opting the Fund up to Professional Investor status, there is an expectation that Members will receive relevant, detailed and timely training, with updates of the training and attendance provided to the various fund managers, advisors and custodians that the Fund uses. It is likely that some of the new Members will not have had previous experience of being on a pension Committee and / or will not have sufficient knowledge of the LBB scheme.
- 1.7. 2019/20 was the completion of the Fund’s triennial valuation, which had a significant impact on the employers within the Fund. A review of the Fund’s investment strategy will be completed by December 2020. Full training will be provided to Members during 2021 on any new asset classes being proposed.

2. Pension Committee

2.1 The Council has delegated responsibility for the management of the Fund's investments to the Pension Committee (“the Committee”). The Committee comprises of seven councillors and three non-voting representatives, including a Union, an employer and an employee representative, as per below:

Chair: Cllr Kashif Haroon
Deputy: Cllr Foyzur Rahman
Cllr Rocky Gill
Cllr Amardeep Singh Jamu
Cllr Mick McCarthy
Cllr Dave Miles
Cllr Tony Ramsay

Committee Observers

Union: GMB - Steve Davies
Member: Unison - Susan Parkin
Employer: UEL – John Garnham

Advisors: Hymans Robertson
Independent Advisors: John Raisin Financial Services Limited
Actuary: Barnett Waddingham
Custodian: Northern Trust

2.2 The Committee meets at least quarterly and its role is to deal with the management of Fund’s investments in accordance with Regulations issued by the Secretary of State under Section 7 of the Superannuation Act 1972.

2.3 The Section 151 officer has overall responsibility for the financial management of the Fund and the administration of the pension scheme.

2.4 The Committee’s objectives are to:

- i. approve all policy statements prepared under the LGPS Regulations.
- ii. be responsible for the investment policy, strategy and operation of the Fund and its overall performance, including considering the Fund’s liability profile.
- iii. appoint and retendering of the Fund Actuary, Custodian, advisors to and external managers of, the Fund and agree the basis of their remuneration.
- iv. monitor and review the performance of the Fund’s investments including receiving a quarterly report from the Chief Finance Officer.
- v. receive actuarial valuations of the Fund.
- vi. monitor the LGPS Regulations, Codes of Practice or guidance issued by the Pensions Regulator and the National Scheme Advisory Board.
- vii. select, appoint and terminate of external Additional Voluntary Contribution (AVC) providers and review performance.
- viii. consider any recommendations made or views expressed by the London Borough of Barking and Dagenham Pension Board.

3. Pension Administration

3.1 The Council's Pensions Administration Team manage the administration of the Fund and are responsible for paying the benefits to the scheme members and for keeping the records of all other scheme members until their benefits become due.

3.2 Over the past 20 years the LGPS has had many minor adjustments and a few large-scale changes to its benefit structure. With these changes, transitional relief between schemes has occurred, which in practice means that the administration team must be conversant with the regulations throughout this period.

3.3 The Fund uses Altair, a system supported by Heywood Limited to manage its administration. All member records are now electronically held within Altair. The administration system will be tendered in early 2021 using a national framework.

3.4 The quality of the data held is vital to the running of the Pension Fund and there are several additional checks undertaken to ensure information is held correctly, including annual benefit statements, national fraud initiatives, regular data reconciliations between payroll and the pension administration system, the use of a tracing agent and quality checking via Club Vita. The Fund also uses the Government's Tell Us Once service, which is a service that informs the Fund when a death has been registered. Where pensioners live abroad a "certificate of existence" is sent out as a further measure to prevent fraud within the Fund.

3.5 The Pensions Regulator specified measure of the Fund's data quality was:

Common 96.0% Scheme-specific 94.8%

3.6 These scores represent a good level of data quality, but work will be undertaken in 2021 to improve this figure.

3.7 Pension Administration costs and activities are included in the appropriate CIPFA benchmarking group and the Government SF3 return. The most recent report is the SF3 2019/20, which compares the Fund with similar Councils within London.

3.8 A Pension Administration Strategy has been agreed and has been implemented.

3.9 The main activities covered by the Pension Administration Team in 2018/19 and 2019/20 is summarised in table 1 below:

Type of Activity	2018/19	2019/20
Number of Starters	829	728
Number of Transfer Value Actual	45	85
Number of Refunds	190	159
Number of Deferred Benefits	445	237
Number of Estimates	1056	1213
Number of Retirements	246	240
Number of Death in Service	8	3
Death in Retirement	160	177

4. The Funding Level and Employers' Contribution Rate

4.1 The Fund's triennial review was last completed on 31 March 2019. Following strong investment growth, the funding level increased from 77% in 2016 to 90% at 31 March 2019.

4.2 The Fund's estimated funding level as at 31 March 2020 was 81.9%.

4.3 The Council's contribution rates for the triennial period are:

2020/21	21.0%
2021/22	22.0%
2022/23	23.0%

4.4 The Council has adopted a stepped contribution rate for a number of reasons, including:

- provide an initial saving to the Council, while providing an average contribution rate of 22.0% over the triennial valuation period;
- a number of staff were transferred, fully funded, to a number of wholly owned companies, with each company paying a rate higher than the Council's contribution rate; and
- The funding level had improved significantly to 90%, based on a discount rate of 4.0%, allowing some flexibility to pay a slightly reduced contribution rate.

4.4 To achieve a 100% funding level and allow a stable contribution rate the Committee are committed to:

- commissioning a full actuarial valuation of the Fund every three years;
- reviewing funding level reports from the Fund's actuary, Barnett Waddingham;
- agree with the actuary to recover deficits through appropriate mechanisms;
- monitor and review the actuarial and consultancy services; and
- implement a de-risking strategy as the Fund's funding level improves.

4.4 Funding strategy and links to investment strategy

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions or asset returns and income. To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa. Therefore, the funding and investment strategies are inextricably linked.

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The Actuary's assumptions for future investment returns are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government.

5. Management of Fund Investments

- 5.1 The Committee seeks a return on the investments of the Fund that enable 100% funding to be achieved from a stable employers' contribution rate by:
- reviewing managers' performance against those targets over quarterly, annual and three-year rolling periods, at quarterly Committee meetings;
 - having officers monitor the level of transaction costs (brokerage and stamp duty) incurred;
 - having officers meet quarterly with most fund managers or at least annually with all the fund managers; and
 - ensuring officers monitor the external managers' use of soft commission arrangements, if any.
- 5.2 The Fund's strategy was reviewed in 2020 and any recommendations from the review will be implemented in 2021/22.
- 5.3 The strategic asset allocation of the Fund, together with control ranges and the benchmark index for each asset class is as follows:

Asset Class	Strategic Allocation	Strategy Control Range	Benchmark Index
	%	%	
Growth – Baillie Gifford	20		MSCI ACWI GD
Income Generating - Kempen	14		MSCI World ND
Passive Developed World – UBS (hedged and unhedged)	14		FTSE Developed Index FTSE Developed Index Hedged
TOTAL EQUITIES	48	46–55	
UK Bonds	4		<i>FTSE All Stock Gilt Index</i>
Global Credit	8		<i>Target Return 4.0% (revised)</i>
TOTAL BONDS	12	9–15	
Absolute Return – Pyrford	9		<i>UK RPI + 5%.</i>
Absolute Return – Newton	7		<i>1 Month LIBOR +4%</i>
TOTAL Absolute Returns	16	14–18	
Property – BlackRock	4		<i>MSCI All Balanced Prop</i>
Property – Schroders	3		
TOTAL Absolute Returns	7	5-9	
Diversified Alternatives	8	6-10	<i>3mth LIBOR plus 4%</i>
Infrastructure	9	4–11	<i>Target yield 5.9% per annum</i>
Cash	0	0–2	

TOTAL ASSETS	100	-	
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6. Arrangements for Additional Voluntary Contributions (AVCs)

- 6.1 The Committee aims to ensure that there is a varied selection of high-performing investment options available for contributors who wish to make additional voluntary contributions (AVCs).
- 6.2 The Committee will review the Fund's AVC arrangements regularly, with the next review scheduled for early 2022.
- 6.3 Currently the Fund's AVC is managed by Prudential Plc. The performance and options offered will be monitored by officers who, in the event of issues arising, will report this to the Committee.

7. Legislation

- 7.1 The Committee aims to respond promptly to legislative changes with implications for the management and administration of the Fund. It seeks to achieve this by:
- considering reports on the implications for the Fund of relevant draft legislation;
 - closely monitoring new legislation affecting the LGPS; and
 - agreeing any actions necessary to ensure full compliance when the final legislation is enacted including any deadlines.

8. Myners Principles on Investment Decision-making

- 8.1 A revised statement of the Myners principles for investment management by institutional investors were published by the Government in 2008. CIPFA has subsequently issued guidance to local authority pension funds on the application of the principles in a local authority context.
- 8.2 Principle 1 of the revised principles states that administering authorities should ensure that:
- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary for them to take them effectively and monitor their implementation; and
 - those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

9. Decision Making

- 9.1 The Committee will take advice as necessary to ensure that all decisions are made in the best interests of the Fund and its members. Advice is provided by the:
- Section 151 officer and their staff;
 - Fund's Actuary and Investment Advisor;

- Independent Advisor to the Committee; and
- External fund managers.

10. Pension Boards

10.1 As part of a Review of Public Service Pensions, published March 2011, Lord Hutton recommended several changes to “make public service pension schemes simpler and more transparent”. The Government carried this forward into the Public Service Pensions Act 2013, which requires the Department for Communities and Local Government (DCLG) to make regulations to establish a national Scheme Advisory Board and enabling each LGPS administering authority to establish local pension boards. The names and the roles of the Pension Board Members are below:

- Paul Field (LBBB Employer) (Chair)
- Hugo Wuyts (Unison Employees) (Deputy Chair)
- Dean Curtis (UEL Employers)
- Steve Davies (GMB Employees)
- Wijay Pitumpe (Barking College Employers)
- Steve Ridley (Unite Employees)

10.2 A key aim of the reform process is to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests in that process.

10.3 A Pension Board (“PB”) was established by 1 April 2015. The PB has the following Terms of Reference, which will be subject to an annual review:

- i. There will be a separate Committee and PB, with the PB functions as per those prescribed within the regulations.
- ii. The PB will contain 3 employer and 3 scheme member representatives.
- iii. PB Members will not be remunerated apart from reimbursement of basic transport and training costs.
- iv. Biannual PB meetings to be held as a minimum, prior to the June and December Pension Committees. The PB will follow the Aon Hewitt method for governance:
 - 1) Direction – what is the fund trying to achieve (legislation, strategy and policy);
 - 2) Delivery – how the Fund meets its aims (business planning, performance monitoring and risk management); and
 - 3) Decisions – does the Fund have effective decision making (governance structure, behaviour and Pension Skills and Knowledge).
- v. Should the PB be unhappy with the implementation of its recommendation(s) a report will be submitted to the next possible Council Assembly for consideration.
- vi. The PB will be chaired on an annual rotational basis.

- vii. Training will be provided prior to each Board Meeting, with two additional half day training sessions held during the year. Bespoke training will be provided to new PB Members as required.

11. Training and Development for Fund Committee Members

11.1 The Review on Institutional Investment in the UK called the Myners Review, recommended that trustees should receive more formal training "to be able to take decisions with the skill and care of someone familiar with the issues concerned". The Committee aims to keep abreast of all developments affecting the LGPS by undertaking training and/or taking advice when necessary from external fund managers, external consultants and council officers.

11.2 The Committee expects the Officers and Members to keep up to date with developments in pensions and investment matters and to undertake training as required. In addition the best practice guidance on the governance of pension funds issued by the CLG and the CIPFA guidance on the application of the Myners principles emphasise the importance of appropriate training and development for Committee Members to allow them to carry out their responsibilities effectively.

11.3 CIPFA's Knowledge and Skills Framework

CIPFA has developed a Knowledge and Skills Framework for Committee Members and separately, for pension fund professionals with responsibilities in this area. The framework is intended to have two primary purposes:

- as a tool for organisations to determine whether they have the right mix of skills to carry out their responsibilities for the fund; and
- as an assessment tool for individual Members to measure their progress and plan their development.

There are seven areas of knowledge and skills relating to the LGPS, which CIPFA has identified as being the core technical requirements for those involved in decision-making. These will be covered at training to be provided prior to each Committee meeting over a three-year period.

11.4 General training and annual events will be provided and are outlined below:

Training	2021	2022	2023
ESG and Value equity investments	January		
Private debt and Diversified Growth Funds	February		
Multi-asset Credit and Fixed Income (LCIV)	March		
Property Investments	April		
Asset Class Training (tbc)	June	June	June
Asset Class Training (tbc)	December	December	December
Actuarial methods standards and practices -		March	March
Legislative and Governance context	June	June	June
Accounting and Auditing Standards	June	June	June
Legislative and Governance context	June	June	June

Financial Services procurement & relationship management	September	September	September
Investment Performance and Risk management	December	December	December
Financial Markets and Products Knowledge	December	December	December

12. Key Fund Activities 2021 to 2024

- 12.1 Over a triennial valuation period there are a number of key activities that are repeated each year and some that lead up to and then follow the production of the triennial valuation period.
- 12.2 Meetings with Fund managers will take place biannually as outlined in the table below. A meeting with the Fund's passive equity and fixed income manager, currently managed by UBS, will be once a year.
- 12.3 A Business Plan Update report will be taken to each Committee containing an update of progress made against the business plan, and will include a summary of the meeting held with each fund manager

Activity	2021	2022	2023
Administration			
Pension Administration Software Tender	January to March		
Pension Internal Audit	March		March
Data Cleanse	February / March	February / March	February / March
Valuation – collection of data		April to July	
Triennial Valuation		Apr to July	January - March
Valuation Results to Employers		Nov - December	
Submission of Data for Employers	April to July	April to July	April to July
Administration Performance Review	Quarterly	Quarterly	Quarterly
Business Plan Review		March	March
Annual Benefit Statements	May to August	May to August	May to August
Refresh pensions website	August	August	August
I-Connect implementation	March		
Investments and Accounting			
Investment Strategy Review			July to December
Investment Performance Review	September	September	September
Review of Strategy (Annual)	December	December	December
Employer Accounting Reports	July, Aug & March	July, Aug & March	July, Aug & March
Governance			
Annual Report and Accounts	Apr to June	Apr to June	Apr to June
Pension Board Meeting	Biannual	Biannual	Biannual
Review Risk Register	August	August	August
Review AVC Provider		March	
Independent Adviser contract	March	March	March
Fund Manager Meetings			
Equities	January / July	January / July	January / July

Fixed Income	February / August	February / August	February / August
Property	Mar / September	Mar / September	Mar / September
Diversified Growth	April / October	April / October	April / October
Infrastructure	May / November	May / November	May / November
Diversified Alternatives	June / December	June / December	June / December

13. Assessment of training needs

- 13.1 CIPFA recognises that there may be a wide range of skills and experience among councillors who are nominated to serve on Committee. They may include Committee Members with specialist expertise in investment matters on the one hand and those with no prior pension knowledge on the other. In these circumstances a ‘one-size-fits-all’ approach to training for Committee Members may not be appropriate.
- 13.2 A questionnaire was sent to all Members to help identify additional training needs. The 2021 to 2024 training plan has been structured around the development needs of Members and observers.

14. Communication

- 14.1 The Committee will plan to keep the Fund's participating employers and members informed on matters that affect them by publishing a variety of documents, details of which can be found in the Fund’s Communications Policy.
- 14.2 A pension specific website has been set up which includes details on pension administration and pension investments.
- 14.3 A Fund Annual Report is produced annually and placed on the Council’s website, with a summary version distributed to all Fund members.

15. Review and Evaluation of BP

- 15.1 A new BP will be produced after each triennial valuation, with an annual review at the March Committee meeting. The Committee will be provided with a BP update and a reminder of the next quarter’s training at each quarterly Committee meetings.

16. Risk Monitoring

- 16.1 Risk has always been a part of the Fund but the past five years have shown that the failure to adequately identify, analyse and manage risk can have dramatic and wide-ranging consequences.
- 16.2 Managing the risk of an overall reduction in the value of the fund and maximising the opportunities for gains across the whole fund portfolio is a top priority. However, while the management of investment risk is rightly a fundamental concern, there is a great deal more to the effective management of risk in the LGPS.
- 16.3 The risk register provides a summary of the key risks the Fund is exposed to and how these risks are managed and / or avoided. The risk register will be updated at least annually and will be taken to Members as part of the BP each year for noting.

17. Performance Management

- 17.1 The monitoring of the returns on the Fund Investments is undertaken by officers on a daily basis with a quarterly return provided by Northern Trust and PIRC.
- 17.2 At each Pension Committee a summary of the Fund's performance over the prior quarter is provided, with comparison of the actual returns after fees achieved against each manager's agreed investment benchmarks and targets.
- 17.3 Where a fund manager has underperformed over three consecutive quarters they will be asked to attend the next Pension Committee, where Members will be able to ask the fund manager questions and to gain an understanding of the reasons for the underperformance.
- 17.4 Where a fund manager has underperformed its benchmark over a rolling two-year period officers will provide a review paper on the manager to be taken to the next available Committee. The review paper will outline the reasons for the underperformance and will include an overall recommendation as to whether the manager and their strategy are still appropriate for the Fund.
- 17.5 Where a significant change in strategy, personnel, general operations, or any other relevant issue is identified with a fund manager a paper will be taken to the next available Committee outlining the issue and recommending a course of action if required. If the issue is significant then an emergency meeting can be called following agreement by the Chair or deputy Chair.
- 17.6 Performance reports will include, where applicable, returns for the previous four quarters, year to date, one year, two years continuing to up to five years. Underperformance will include any red returns.
- 17.7 The fund manager's performance will be scored using a quantitative analysis compared to the benchmark returns, defined as follows:

■	RED- Fund underperformed by more than 75% below the benchmark
Δ	AMBER- Fund underperformed by less than 75% below the benchmark
○	GREEN- Fund is achieving the benchmark return or better

- 17.9 All reports contain returns are provided net of fees. PIRC have advised that reporting net of fees will likely reduce the Fund's returns by 0.3% to 0.4% compared to gross returns. If compared to some local authorities, this can be significantly higher if fund manager fees are high.

18. Corporate Governance

- 18.1 The Regulations require that the Fund's ISS reflect the agreed investment policies and procedures which govern Fund's operation. The appointment of any new fund managers and any other changes that the Committee makes to current investment procedures will need to be incorporated in the ISS. In any event, the Committee will review the Statement annually, to ensure compliance with best practice.

19. Finance implications

- 19.1 Regulation 59 of the Local Government Pension Scheme Regulations 2013 sets out the framework to produce a Pensions Administration Strategy which would include business planning.
- 19.2 The Business Plan includes the major milestones and issues to be considered by the Panel and includes financial estimates for the investment and administration of the fund and appropriate provision for training.
- 19.3 The key actions, the date they were completed and by whom are summarised in the Business Plan Update report.

20. Legal Implications

- 20.1 The Pensions Committee has been constituted by the Council to perform the role of administering authority to manage the Fund and as such has legal authority to make the decisions sought by the recommendations. Committee Members have a legal responsibility for the prudent and effective stewardship of LGPS funds, and in more general terms have a fiduciary duty in the performance of their functions.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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