Barking & Dagenham

Notice of Meeting

PENSIONS COMMITTEE

Wednesday, 15 March 2023 - 7:00 pm
Council Chamber, Town Hall, Barking

Members: Cllr Moin Quadri (Chair), Cllr Nashitha Choudhury, Cllr Rocky Gill, Cllr Giasuddin Miah and Cllr Tony Ramsay

Independent Advisor: John Raisin

Observers: Steve Davies, Marc Albano and Susan Parkin

Date of publication: 7 March 2023

Fiona Taylor
Acting Chief Executive

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Please note that this meeting will be webcast via the Council's website. Members of the public wishing to attend the meeting in person can sit in the public gallery on the second floor of the Town Hall, which is not covered by the webcast cameras. To view the webcast online, click here and select the relevant meeting (the weblink will be available at least 24-hours before the meeting).

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 11 January 2023 (Pages 3 - 4)**

4. **Quarterly Monitoring Report - October - December 2023 (Pages 5 - 36)**

5. **Administration and Governance Report (Pages 37 - 76)**

6. **Business Plan Update (Pages 77 - 83)**

7. Pension Fund Annual Report 2021/22 (Pages 85 - 87)

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

9. 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.

10. Appointment of Independent Advisor (Pages 89 - 95)

11. 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, 11 January 2023
(6:00 - 7:49 pm)

Members Present: Cllr Moin Quadri (Chair), Cllr Nashitha Choudhury, Cllr Rocky Gill, Cllr Giasuddin Miah and Cllr Tony Ramsay

Observers Present:

Advisors Present: John Raisin and Nicholas Jellema

Apologies: Steve Davies

16. Training - Triennial Valuation, Investment Strategy, Asset Classes and the Fund Strategy Review

In accordance with the agreed schedule of training and prior to the formal business of the meeting, the Council Investment Fund Manager, supported by the Pension Fund Account and the Independent Advisor to the Committee provided a series of informative slides for Members detailing information about the Triennial Valuation of the Fund, Pension Investments and Performance 2019-2022, Asset Classes and the Pension Fund Strategy Review.

17. Declaration of Members' Interests

There were no declarations of interest.

18. Minutes (14 September 2022)

The minutes of the meeting held on 14 September 2022 were confirmed as correct.

19. Pension Fund Quarterly Monitoring- July to September 2022

The Investment Fund Manager presented a report on the Fund's performance during the period 1 July to 30 September 2022 (Quarter 3), including details of the performance of individual Fund Managers. The Committee also received a verbal update on the unaudited performance of the Fund up to 9 January 2023, as well as an update on the Fund's Investment Strategy and performance. There was also input from Nick Jellema, Hymans Robertson on the performance of asset classes and how it tied into the impending Strategy Review.

The Investment Fund Manager responded to questions and observations about the underperformance of individual Fund Managers and the planned actions to address performance, which would be picked up as part of the Strategy review. In that respect he advised that rather than focusing on individual performance it was more appropriate to consider the overall portfolio, and in doing so consider a rebalancing of the Fund amongst Managers.

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, and

(iii) The quarterly performance of pension funds collectively and of Fund Managers individually.

20. Administration & Governance Report

The report presented by the Pension Fund Accountant provided an update on the administrative and governance changes that had occurred since the last meeting. It set out the Fund's one and three-year cashflow forecast (1 April 2023 - 31 March 2025), an update on the London Collective Investment Vehicle (LCIV) as the Fund moves towards more pooled investments, details of the Internal Audit of the Pension Fund as set out in Appendix 1, together with a brief update from the Independent Advisor on Government Ministerial changes for the LGPS, and the likely delays this would have on a proposed consultation on further developing Investment (Asset) Pooling, which had originally been expected in 2019.

The Fund was legally required to provide a Compliance Statement (CS) to confirm adherence to the relevant Articles of the relevant Part or Parts of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019, which in turn required the Fund to set Strategic Objectives for its investment consultancy provider (Hymans Robertson). Appendix 2 to the report set out an evaluation of the performance of Hymans against the objectives covering the period 15 December 2022 – 14 December 2023.

The Committee accordingly noted the report and agreed the investment consultant Strategic Objectives for 2023 as detailed.

21. 2021-22 Draft Pension Fund Accounts

The Committee noted the draft Pension Fund Accounts 2021/22 as set out in Appendix 1 to the report, which will be finalised once the audit commences.

22. Business Plan Update 2021-23

The Committee **noted** progress on the delivery of the 2021-2023 Business Plans actions as set out in Appendix 1 to the report.

PENSIONS COMMITTEE

15 March 2023

Title: Pension Fund Quarterly Monitoring 2022/23 – 1 October to 31 December 2022	
Report of the Chief Financial Officer	
Open Report	**For Information**
Wards Affected: None	**Key Decision:** No
Report Author: David Dickinson, Investment Fund Manager	**Contact Details:** Tel: 020 8227 2722 E-mail: david.dickinson@lbbd.gov.uk
Accountable Director: Philip Gregory, Chief Financial Officer	
Accountable Strategic Leadership Director: Fiona Taylor, Acting Chief Executive	

Summary

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 October to 31 December 2022.

The report updates the Committee on the Fund's investment strategy and its investment performance.

Recommendation(s)

The Pension Committee is recommended to note:

(i) the progress on the strategy development within the Fund,

(ii) the Fund's assets and liabilities daily value movements outlined in Appendix 1, and

(iii) the quarterly performance of the fund collectively and the performance of the fund managers individually.

1. Introduction and Background

1.1 This report provides information for employers, members of the LBBD Pension Fund ("the Fund") and other interested parties on how the Fund has performed during the quarter 1 October to 31 December 2022 ("Q4"). The report updates the Committee on the Fund's investment strategy and 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. A verbal update on the unaudited performance of the Fund for the period to 14 March 2023 will be provided to Members at the Pension Committee.

2. Market Background (Q4 2022)

2.1 In contrast to the previous three Quarters October to December 2022 was positive for World Equity markets. The October to December Quarter saw the MSCI World Index advance by almost 10% (in $ terms) with all major geographies seeing positive returns. However, these gains were far lower than the previous cumulative losses of 2022 which saw the MSCI World Index decline by over 25% between January and September.

2.2 October and November were both clearly positive months for Global Equities with markets generally buoyed by indications that inflation though still high was on a path to slowing and indications that the US Federal Reserve would mitigate its monetary policy tightening stance. Additionally there were generally strong corporate earnings announcements in both the US and Japan. In October the reversal by the UK Chancellor Rt Hon Jeremy Hunt MP of the vast majority of the fiscal (tax) reforms announced (in September) by his predecessor Rt Hon Kwasi Kwarteng MP buoyed not only UK but US and World stock markets. In November a positive meeting between President Joe Biden of the US and President Xi Jinping of China and expectations of the easing of COVID restrictions by China also boosted markets. Buyers purchasing equities at what they considered a discount after the significant falls earlier in 2022 could also have been a factor pushing markets upwards. The MSCI World Index advanced (in $ terms) by 7% in both October and November. December however was a negative month with the MSCI World Index falling by 4%. Statements by both US Federal Reserve and European Central Bank regarding further interest rate rises unsettled markets. This was despite the US Federal Reserve increasing interest rates by 0.5% at its December 2022 Federal Open Markets Committee meeting rather than 0.75% as at each of the four previous meetings including the 1-2 November 2022 meeting.

2.3 Since March 2022 the US Federal Reserve has applied ongoing and significant increases in interest rates in order to seek to reduce inflation. US inflation remained clearly elevated but fell during the October to December Quarter. Headline CPI which had been 8.2% in September fell to 7.7% in October, 7.1% in November and 6.5% in December. Despite declining from 5.2% in September to 5.1% in October, 4.8% in November and 4.6% in December 2022 the Core PCE Index which is closely observed by the Federal Reserve when determining monetary policy remained well above its target of 2% inflation. One reason for the continuing strength of inflation in the US is the very low unemployment rate which was only 3.5% by December 2022.

2.4 The US S&P 500 index increased by over 7% during the October to December Quarter. Both October and November were positive, but December was negative. In October, better than expected overall corporate earnings announcements, particularly from Banks (Bank of America and Goldman Sachs) and Apple boosted markets. A slowing of inflation (relating to October but reported in November) and statements from senior Federal Reserve Officials supportive of a slower pace of future rate rises also boosted stocks in November.

2.5 December however proved a difficult month. Despite the US Federal Reserve slowing the pace of interest rate rises at its December meeting markets were upset by statements from several senior Federal Reserve officials regarding the (greater than anticipated) extent of likely future rate rises. The US market was also adversely affected in December by some weak corporate earnings data, and also by negative announcements from Tesla.

2.6 Eurozone Equities experienced a clearly positive Quarter with the MSCI EMU index advancing almost 13% (in Euro terms). As with world markets in general October and November were positive while December proved to be negative. Over the Quarter mild weather and lower gas prices were helpful to both the economy and equity markets.

2.7 On 27 October 2022 the European Central Bank (ECB) raised interest rates by 0.75% stating in its press release that "With this third major policy rate increase in a row, the Governing Council has made substantial progress in withdrawing monetary policy accommodation. The Governing Council took today's decision, and expects to raise interest rates further, to ensure the timely return of inflation to its 2% medium-term inflation target. The Governing Council will base the future policy rate path on the evolving outlook for inflation and the economy, following its meeting-by-meeting approach." At the meeting that concluded on 15 December 2022 the Governing Council of the ECB raised interest rates by a further 0.5%. However, this reduction in the pace of rate rises was accompanied by a clear message regarding likely significant future rate rises which undermined European Equity markets. In her press conference statement following the conclusion of the December Governing Council meeting ECB President Christine Lagarde stated "…We decided to raise interest rates today, and expect to raise them significantly further, because inflation remains far too high and is projected to stay above our target for too long…"

2.8 Eurozone inflation as measured by the Harmonised Index of Consumer Prices (HICP) remained way above the ECB medium-term inflation target of 2%. It had been 7.4% in March 2022 and by September reached 9.9%. In October it was 10.6% and in November 10.1% (which was the latest data available to the ECB at its December Monetary Policy meeting). In December 2022 it was 9.2%.

2.9 UK Equities also enjoyed a clearly positive Quarter with both the FTSE All Share and the FTSE 100 increasing by approaching 9% (in £ terms). The more domestically focussed FTSE 250 which had experienced a torrid previous 9 months increased by approaching 11%. The recovery in UK Equities and particularly in those whose primary market is the UK was doubtlessly aided by the the reversal in October of most of the changes to fiscal policy (including significant unfunded tax cuts) announced by the Government on 23 September 2022 and also by the replacement, on 25 October 2022, of Rt Hon Elizabeth Truss MP as Prime Minister by Rt Hon Rishi Sunak MP.

2.10 During the October to December Quarter CPI inflation remained far above the Bank of England policy target of 2%. CPI inflation which had been 7.0% in March 2022 reached 11.1% in October which was the highest rate for 41 years (since October 1981). November saw a rate of 10.7% and December 10.5%. Core CPI Inflation (which excludes volatile food, energy, alcohol, and tobacco prices) also remained high. It had been 6.5% in September and by December was still 6.3%. Ongoing high inflation remained a major issue for low-income families who are particularly affected by high energy and high food costs. Unemployment remained very low with the Office for National Statistics reporting a rate of 3.7% for the October to December period.

2.11 At its meeting ending on 2 November 2022 the Bank of England Monetary Policy

Committee (MPC) raised Bank Rate (interest rates) by 0.75% the largest increase at a single meeting for 30 years. The increase took Base Rate to 3% its highest level since 2008. In justification of the 0.75% increase the Minutes of the MPC (paragraph 49) stated "…Overall, a larger increase in Bank Rate at this meeting would help to bring inflation back to the 2% target sustainably in the medium term, and to reduce the risks of a more extended and costly tightening later." At the MPC meeting ending on 14 December meeting bank Rate was increased by a further 0.5% to 3.5%. The minutes of the meeting (paragraph 48) included the statement "…The labour market remained tight and there had been evidence of inflationary pressures in domestic prices and wages that could indicate greater persistence and thus justified a further forceful monetary policy response… A 0.5 percentage point increase in Bank Rate at this meeting would help to bring inflation back to the 2% target sustainably in the medium term, and to reduce the risks of a more extended and costly tightening later."

2.12 For the third Quarter in a row Japanese inflation was above the Bank of Japan's 2% target. In December 2022 core inflation reached 4% a 41 year high. Japanese Equities (as measured by the Nikkei 225 Index) clearly underperformed other major markets advancing by less than 1% over the Quarter (in Yen terms). In October the Nikkei advanced by over 6% in part as a result of positive corporate earnings results. November saw a further advance of over 1% before a fall of 7% during December. The announcement by the Bank of Japan of a widening of its Yield Control policy on 20 December 2022 was followed by a clear weakening in Japanese equities with the Nikkei 225 losing over 4% between the close of trading on 19 December and the year end.

2.13 At its October and December 2022 Monetary Policy meetings the Bank of Japan maintained its position as the only notable Central Bank to retain negative/zero interest rates announcing a continuation of short-term interest rates at -0.1% and the long-term rate at around 0% (linked to the 10 Year Japanese Government Bond yield). At its December Monetary Policy meeting, however, the Bank surprised (or perhaps shocked) markets when it also announced a major and unanticipated shift in the conduct of its Yield Control policy that "…the Bank will expand the range of 10-year JGB yield fluctuations from the target level: from between around plus and minus 0.25 percentage points to between around plus and minus 0.5 percentage points" (Bank of Japan Statement on Monetary Policy, 20 December 2022). Yield Control is whereby a Central Bank targets a longer-term interest rate and then buys/sells bonds to maintain that target rate. The Governor of the Bank of Japan Haruhiko Kuroda denied that this clear change to Yield Control policy amounted to a tightening of monetary policy but rather stated it was to address increased market volatility and to improve the sustainability of monetary easing. While this change in the conduct of Yield Control policy resulted in an immediate strengthening of the Yen v the US $ it does not fundamentally address the differences in Japanese Monetary Policy (ultra-loose) compared to that of the other major Central Banks which have significantly tightened monetary policy and have indicated further likely tightening. In such a situation the Yen remained/remains vulnerable to sell-offs.

2.14 Overall Asian (excluding Japan) and Emerging Market Equities enjoyed a clearly positive Quarter. The MSCI Asia (ex-Japan) Index advanced by over 11% (in US$ terms) and the MSCI Emerging Markets Index advanced by approaching 10%.

2.15 In contrast to western Developed markets Asian (ex-Japan) and Emerging markets experienced a generally negative October. Chinese COVID restrictions and concerns over the future political direction of China following the 20th Communist Party Congress were clear negatives. November 2022 was, however, an outstandingly positive month for Asian/Emerging markets. Chinese and Asian/Emerging Markets were boosted from November by expectations of the loosening of COVID restrictions in China resulting from both signals from the Chinese authorities and significant public protests against lockdowns. The favourable meeting in Indonesia on 14 November 2022 between US President Joe Biden and Chinese President Xi Jinping also buoyed markets. December was a (moderately) negative month for Asian and Emerging markets which as with Global markets generally reacted adversely to concerns that the US Federal Reserve might raise interest rates higher and for longer than had been expected.

2.16 US and German Government bonds experienced yet another negative Quarter with yields rising (and prices therefore falling). The yield on the 2 Year Treasury increased from 4.28% to 4.43% and the 10 Year Treasury yield increased (marginally) from 3.83% to 3.87%. The German 2-year Bund yield increased from 1.76% to 2.76% while the yield on the 10-year Bund increased from 2.11% to 2.57%. Overall, adverse announcements regarding inflation and expectations regarding future interest rate rises by both the US Federal Reserve and European Central Bank weighed against these benchmark Government bonds.

2.17 In contrast to the previous torrid Quarter and despite further interest rate rises by the Bank of England at both its November and December 2022 Monetary Policy Committee meetings UK Gilts enjoyed a positive Quarter in the context of the Government reversing most of the unfunded tax cuts announced on 23 September 2023 (which had resulted in a crisis in Gilt markets) and the replacement of Rt Hon Elizabeth Truss MP as Prime Minister by Rt Hon Rishi Sunak MP. The yield on the 2 Year Treasury fell from 4.23% to 3.58% and the 10 Year yield from 4.09% to 3.67%.

3. Overall Fund Performance

3.1 The Fund’s closed Q4 valued at £1,301.1m, an increase of £25.9m from its value of £1,275.2m at 30 September 2022. Cash held by the Fund was £1.57m giving a total Fund value of £1,302.7m. The gross value includes a prepayment of £25.0m, with the short-term loan from the Council now repaid. Adjusting for this reduces the Q4 value to £1,277.7m, an increase of £31.4m from the 30 September 2022 figure of £1,246.3m.

3.2 For Q4 the Fund returned 2.9%, net of fees, outperforming its benchmark of 1.6% by 1.3%. Over one year the Fund underperformed its benchmark by 4.4%, returning -7.4% and underperformed the benchmark by 1.7% over three years, returning 4.8%. The Fund has also underperformed its benchmark over five years by 1.8%, returning 5.0%. Compared to the LGPS universe of Funds, represented below by the PIRC Universe, the Fund has underperformed by 1.3% over one year and underperformed over two years by 1.2%. The Fund’s returns are below:

Table 1: Fund’s Quarterly and Yearly Returns

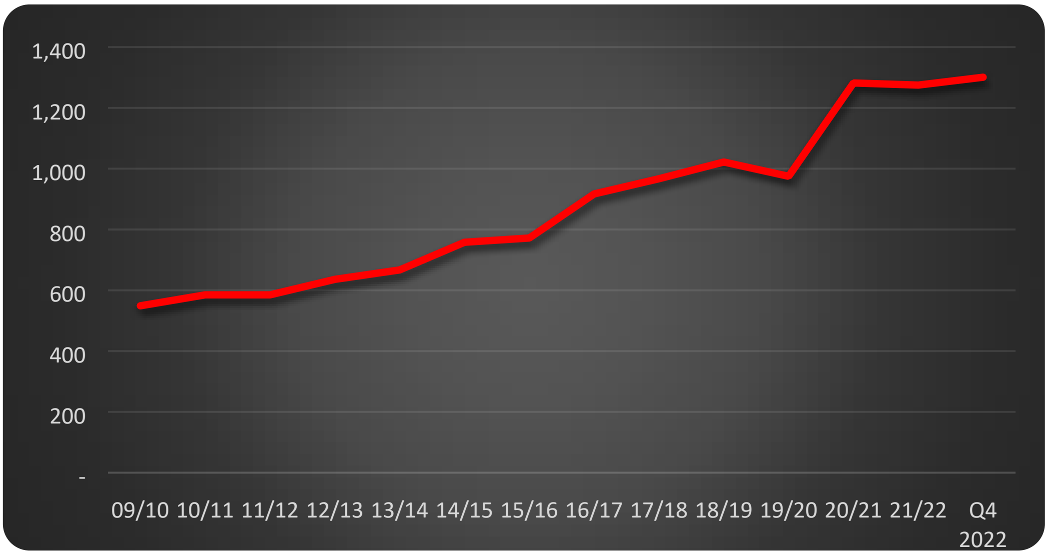
Year	2022				2021				One Yr	Two Yrs	Three Yrs	Five Yrs	Ten Yrs
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1					
Actual Return	2.9	(1.2)	(6.3)	(2.8)	2.6	1.1	4.2	3.6	(7.4)	2.1	4.8	5.0	7.8
Benchmark	1.6	0.1	(4.0)	(0.6)	4.8	1.7	4.6	2.5	(2.9)	5.3	6.5	6.8	8.6
Difference	1.3	(1.3)	(2.3)	(2.2)	(2.2)	(0.6)	(0.4)	1.1	(4.4)	(3.3)	(1.7)	(1.8)	(0.9)
PIRC Universe	1.0	(0.3)	(4.8)	(3.2)	4.4	1.4	5.6	2.4	(6.1)	3.3	4.3	4.8	8.0
Difference	1.9	(0.9)	(1.5)	0.4	(1.8)	(0.3)	(1.4)	1.2	(1.3)	(1.2)	0.5	0.2	(0.2)

3.3 The chart below shows the Fund's value since 31 March 2010 to 31 December 202

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

	RED- Fund underperformed by more than 3% against the benchmark
∆	**A**MBER- Fund underperformed by less than 3% against the benchmark
O	**G**REEN- Fund is achieving the benchmark return or better

3.5 Appendix 1 illustrates changes in the market value, the liability value, the Fund's deficit and the funding level from 31 March 2013 to 31 January 2023. Members are asked to note the changes in value and the movements in the Fund's funding level.



3.6 There has been a change in the liability levels, resulting from significant increases in yields. As a result, the Fund's funding level has fluctuated between 103% and 110% over the quarter and between 108% and 113% based on the Hymans Robertson model. The Fund's strategy has been set up to be able to positively respond to increasing yields and therefore the current economic environment supports the strategy, even if the return has been negative. The triennial results will likely change the assumptions used in producing the funding level, although there is the potential for this to improve the position further.

3.7 **Table 2 – Fund Manager Q4 2022 Performance**

Fund Manager	**Actual Returns (%)**	**Benchmark Returns (%)**	**Variance (%)**	**Ranking**
Abrdn	(1.5)	2.1	(3.6)	
Baillie Gifford	1.2	2.0	(0.8)	∆
BlackRock	(14.4)	(14.1)	(0.3)	∆
Hermes GPE	0.8	1.4	(0.6)	∆
Kempen	10.0	1.9	8.1	**O**
Newton	3.7	1.4	2.3	**O**
Pyrford	3.2	4.7	(1.5)	∆
Insight	5.7	1.0	4.7	**O**
UBS Bonds	1.7	1.7	0.0	**O**
UBS Equities	5.8	5.8	0.0	**O**

3.8 Table 2 highlights the Q4 2022 returns with a number of greens, indicating a number of positive returns. There was a good positive return from Kempen but a large loss from Abrdn. Kempen returned 10% outperforming its benchmark by 8.1%. Newton's performance was good outperforming its benchmark by 2.3% and provided protection in the current market conditions. Passive bonds also provided a positive return for the quarter, reflecting the index linked bond performance for the quarter.

3.9 **Table 3 – Fund Manager Performance Over One Year**

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
Abrdn	(1.4)	7.1	(8.5)	
Baillie Gifford	(22.3)	(7.5)	(14.8)	
BlackRock	(9.2)	(8.6)	(0.6)	
Hermes GPE	20.9	5.8	15.1	O
Kempen	5.4	(7.6)	13.0	O
Newton	(7.0)	4.3	(11.3)	
Pyrford	1.6	17.3	(15.7)	
Insight	(2.0)	4.0	(6.0)	
UBS Bonds	(25.8)	(25.7)	(0.1)	
UBS Equities	(14.2)	(14.2)	0.0	O

Over one-year there are even greater variations between managers, with Baillie Gifford providing a negative return of 22.3% and underperforming its benchmark by 14.8%, while Hermes provided a positive return of 20.9%. Hermes continues to see significant improvements in asset values as a result of their exposure to inflation linked assets, with a number of these being valued significantly higher.

3.10 **Table 4 – Fund manager performance over two years**

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
Abrdn	8.5	5.6	2.9	O
Baillie Gifford	(6.7)	5.7	(12.4)	
BlackRock	3.4	4.7	(1.3)	Δ
Hermes GPE	10.8	5.8	5.0	O
Kempen	12.2	6.8	5.4	O
Newton	0.1	4.2	(4.1)	
Pyrford	2.6	14.7	(12.1)	
Schroders	3.4	3.0	0.4	O
Insight	(1.3)	4.0	(5.3)	
UBS Bonds	(15.4)	(15.4)	0.0	O
UBS Equities	3.7	3.7	0.0	O

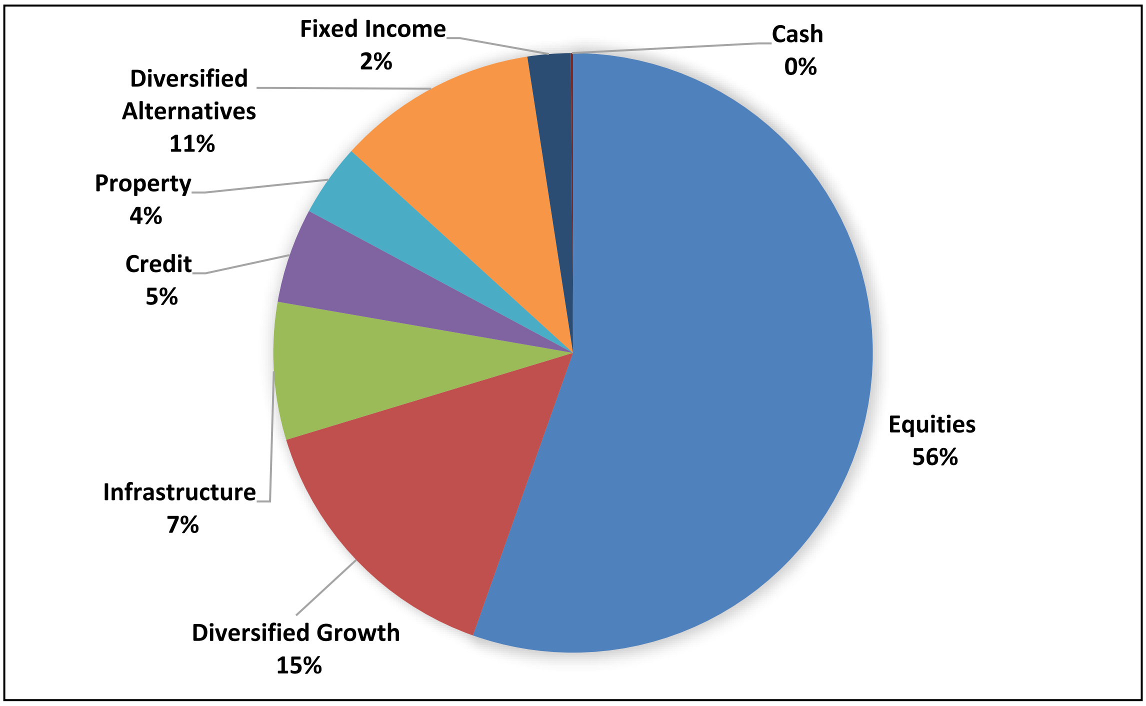
Over two years, returns ranged from (-15.4%) for UBS bonds to 12.2% for value equities (Kempen). Hermes and Abrdn have provided solid returns, with Abrdn providing 8.5% and Hermes providing a return of 10.8% over two years.

4. **Asset Allocations and Benchmark:** Table 5 outlines the Fund's asset allocation, asset value & benchmark at 31 December 2022.

4.1 **Table 5: Fund Asset Allocation and Benchmarks at 31 December 2022**

Fund Manager	Asset (%)	Market Values (£Ms)	Benchmark
Abrdn	10.8%	140.79	3 Mth LIBOR + 4% per annum
Baillie Gifford	20.1%	261.61	MSCI AC World Index
BlackRock	3.9%	50.81	AREF/ IPD All Balanced
Hermes GPE	7.4%	96.56	Target yield 5.9% per annum
Kempen	16.5%	214.78	MSCI World NDR Index
Newton	6.1%	79.65	One-month LIBOR +4% per annum
Pyrford	8.8%	114.40	UK RPI +5% per annum
Schroders	0.0%	0.08	AREF/ IPD All Balanced
Insight	5.1%	66.67	3 Mth LIBOR + 4% per annum
UBS Bonds	2.3%	30.19	FTSE UK Gilts All Stocks
UBS Equities	18.8%	245.44	FTSE AW Developed Tracker
LCIV	0.0%	0.15	None
Cash	0.1%	1.57	One-month LIBOR
Fund Value	**100.0%**	**1,302.70**	
ST Loan		-	
Prepayment		(25.00)	
Net Fund Value		**1,277.70**	

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



4.3 The strategy is overweight equities; however equities are now nearer the middle of the range at 53.7%. Cash excludes the pre-payment and short-term borrowing from the council and shows that the Fund is fully invested. The Fund is significantly below the exposure to Credit, but this will be reviewed during 2022/23.

The current position, compared to the strategic allocation, is in table 6 below:

Table 6: Strategic Asset Allocation

Asset Class	Current Position	Strategic Allocation Target	Variance	Range
Equities	55.4%	52%	3.4%	50-60
Diversified Growth	14.9%	15%	-0.1%	14-18
Infrastructure	7.4%	8%	-0.6%	7-11
Credit	5.1%	8%	-2.9%	6-10
Property	3.9%	5%	-1.1%	4-7
Diversified Alternatives	10.8%	9%	1.8%	7-10
Fixed Income	2.3%	3%	-0.7%	3-5
Cash	0.1%	0%	0.1%	0-1

5. Fund Manager Performance

5.1 Kempen

Kempen	2022				2021				One Year	Two Years	Since Start 6/2/13
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£214.78m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	10.0	(1.6)	(3.1)	0.1	2.9	3.0	2.9	10.2	5.4	12.2	8.4
Benchmark	1.9	2.1	(9.1)	(2.4)	7.3	2.5	7.6	4.0	(7.6)	6.8	11.5
Difference	8.1	(3.7)	6.0	2.5	(4.3)	0.5	(4.7)	6.2	13.0	5.4	(3.1)

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 outperformed its benchmark by 8.1% for Q4 and has outperformed over one-year by 13.0% and over two years by 5.4%. Kempen has underperformed its benchmark since inception by 3.1% but providing an annualised return of 8.4%. Overall the strategy has provide solid returns over a number of quarters, with a strong outperformance against its benchmark.

Strategy Drivers

INFLATION: Increasing demand and disrupted supply is pushing price levels up and price inflation is proving persistent and above expectation across the board. Shortage in basic resources is having an impact throughout the supply chain, with the Ukraine conflict creating additional shortages in energy and food supply that has a global impact on prices. Rising prices for consumption goods are putting pressure on the purchasing power of consumers. Strong labour markets give workers bargaining power for higher wages. Companies are mentioning a negative impact on their margins due to rising input costs and wages.
MONETARY TIGHTENING: Central banks across the world are moving forward their projected path of monetary tightening. Strong labour markets mean central

banks can be aggressive with monetary tightening. Interest rates have increased sharply on the back of tighter monetary policy and elevated inflation. Real interest rates remain low due to the high level of inflation. Higher rates are putting pressure on valuation multiples and companies with high leverage.

RECESSION: Eroding purchasing power of consumers and higher interest rates are slowing down the economy. A wage-price spiral is difficult for central banks to break. Concerns are mounting there may be a recession needed to cool down inflation. If wages manage to keep up with inflation consumer spending should stabilize. Higher input costs and rising wages are a risk to corporate profits. Financial markets appear to already price in a mild recession.

5.2 Baillie Gifford

Baillie Gifford	**2022**				2021				**One Year**	**Two Years**	**Since Start 6/2/13**
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£261.61m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**1.2**	1.0	(12.1)	(12.4)	0.1	(0.6)	7.1	2.2	(22.3)	(6.7)	11.8
Benchmark	**2.0**	1.5	(8.4)	(2.5)	6.3	1.5	7.4	3.7	(7.5)	5.7	11.2
Difference	**(0.8)**	(0.5)	(3.7)	(9.9)	(6.2)	(2.1)	(0.3)	(1.5)	(14.8)	(12.4)	0.6

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 approx. 90-105 stocks.

In July 2022 the Fund transferred from BG's Global Alpha strategy to the BG Paris Aligned Global Alpha fund (BGPA). The transition was completed between 11 and 14 July. The BGPA Fund aims to outperform the MSCI ACWI Index (in Sterling), by at least 2% per annum over rolling five-year periods. In addition, the Fund commits to having a weighted average greenhouse gas intensity lower than that of the MSCI ACWI EU Paris Aligned Requirements Index. BGPA is consistent with the objectives of the Paris Agreement. The portfolio is a variant of the core Global Alpha strategy. It is managed by the same team and with the same investment philosophy and performance objective. However, there is an additional process to screen out carbon intensive companies that do not or will not play a major role in our energy transition.

Performance Review

For Q4 BG returned 1.2%, underperforming its benchmark by 0.8%. BG's one-year return was -22.3%, underperforming its benchmark by 14.8%. Since initial funding, the strategy has returned 11.8% p.a. outperforming its benchmark by 0.6%.

This was a marginally positive quarter as performance continued to stabilise in the Sub-fund following sizeable drawdowns earlier in 2022. These drawdowns continue to take a toll on longer term performance but the gradual shift of the portfolio away from the most aggressively valued holdings, and into less volatile but still growth oriented companies is starting to reap benefits.

These are typically well-known names that one might call ‘franchise compounders’ with established pricing power, such as Prudential, AIA and Shiseido, all of which added to relative performance in Q4. The growth on offer from such established companies may not appear spectacular compared to a rapidly scaling, early-stage technology business. However, the value of this growth, when compounded many years into the future, is often underappreciated.

Concurrently, the overall exposure to early-stage, often pre-profit businesses was reduced. This has been an exercise to weed out of the portfolio several businesses where the investment thesis has deteriorated or where their financial resilience looks increasingly brittle as the cost of capital has increased. These businesses are often found in the ‘Disruptors’ segment of the portfolio. Not surprisingly, given their higher volatility, some of the largest contributors and the largest detractors came from within this bucket. Prosus NV, Abiomed and Moderna were the largest positive contributors while The Trade Desk, Farfetch and Tesla detracted.

LCIV Summary

At the regional level, as of the end of December 2022, the Sub-fund’s largest exposure was North America at 59.8% followed by Europe ex UK at 16.7%. At the sector level, the largest exposure is the financial sector with 19.1% followed by health care at 18.8% and consumer discretionary at 18.5%. From a ‘growth profiles’ perspective, the split remained at approximately 44% in ‘Compounders’, 30% in ‘Disruptors’ and 24% in ‘Capital Allocators’ (the balance of 2% is held in cash).

The investment manager highlighted three key areas of research. The first relates to the ‘Capital Allocators’ segment, where the portfolio managers are hunting for companies which are positioned to benefit from positive structural drivers, but which are facing near-term cyclical pressure which has prompted a derating of their shares. Eaton is a new addition which falls into that category. The investment manager is also interested in the top tier of U.S. housebuilders.

The second area of focus is ‘serial acquirors’. These are companies which are well capitalised, disciplined in allocating capital and skilled in accelerating growth through acquisitions. CRH (0.9% of the Sub-fund at the end of 2022) and, at the other end of the capitalisation spectrum, SiteOne Landscape Supply (0.7%), are examples of the types of companies the investment manager is looking for.

Finally, the investment manager highlights ‘growth for sale’ opportunities to buy companies, possibly including long-term holdings in the Sub-fund, with outstanding potential which are available at attractive prices. MercadoLibre (0.5%), which was added to the portfolio in Q3 2022, is one example.

A very challenging year for the Sub-fund ended on a positive note. The last quarter of 2022 saw the portfolio posting a modest positive return which offers further signs that performance is stabilising. To an extent this is not surprising as the more volatile, typically smaller holdings in the Sub-fund were either sold or significantly reduced when concurrently the relative weight of more stable companies has increased.

This was the result of an overdue 'surgical' operation to reduce the portfolio's exposure to very early-stage, loss-making companies. As a result, the portfolio is now more balanced for the current economic environment. The challenge with such balancing acts is to make sure that the investment manager must continue to seek out and buy exciting, immature companies with high return potential even if the range of outcomes can be very wide. Sustaining a reward-seeking mentality remains paramount. While the Sub-fund is only starting to recover some of the lost ground, we remain confident in the investment manager's ability to deliver further outperformance over the long-term.

5.3 UBS Equities

UBS Equities	2022				2021				One Year	Two Years	Since Start 31/08/12
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£245.44m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	5.8	(3.1)	(12.9)	(4.0)	7.6	0.9	7.5	5.8	(14.2)	3.7	11.8
Benchmark	5.8	(3.1)	(12.9)	(4.0)	7.6	0.9	7.5	5.8	(14.2)	3.7	11.8
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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 5.8% for Q4 and -14.2% over one year. Since funding in August 2012, the strategy has provided an annualised return of 11.8%.

Equities

Global equities lost ground in December, as worries over the pace of central bank tightening resurfaced. All major markets except China moved lower. The largest decline was in the S&P 500, with a total return of minus 5.8%. Japan was also among the biggest losers for the month after the BoJ surprised markets by saying it would tolerate a higher yield on 10-year government bonds. The MSCI Japan lost 5.2%. More defensive markets fared better, with the MSCI UK giving a negative total return of 1.4%. The Swiss market lost 3.6%. China was a bright spot. The market was boosted by a swift move toward reducing COVID-19 restrictions. With a full reopening now in sight in the first quarter of 2023, MSCI China rallied 4.8%, taking its gain for the quarter to 12.5%. However, the MSCI EMU was the best performing index for the quarter, with a total return of 12.7%, as the Eurozone proved more resilient than expected in the face of declining supplies of Russian energy.

Following the FTSE quarterly review in December, no stock was added to, and three stocks were deleted from the index, along with various changes in the shares in issue of the index constituents. Two-way turnover totalled 0.86%. Also, during the quarter but outside of the review, Prologis weight in the index increased following acquisition of Duke Realty Corp. As a result, Duke Realty Corp was deleted from the index.

5.4 UBS Bonds

UBS Bonds	2022				2021				One Year	Two Years	Since Start 5/7/2013
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£30.19m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**1.7**	(12.9)	(7.4)	(7.2)	2.4	(1.8)	1.7	(7.2)	(25.8)	(15.4)	0.8
Benchmark	**1.7**	(12.9)	(7.4)	(7.2)	2.4	(1.8)	1.7	(7.2)	(25.7)	(15.4)	0.7
Difference	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1

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. There is a link between the bond price and the Fund's liabilities and therefore the reduction in returns will have helped to reduce the Fund's liabilities.

Performance

The fund returned 1.7% for Q4, -25.8% for one year and -15.4% for two-year return. Since inception the strategy has returned 0.8%.

Review

Trading in the US bond market was less volatile than equities in December, with the yield on the 2-year US Treasury rising only 3 basis points over the month to 4.35%. The yield on the 10-year US Treasury rose around 10 basis points to 3.76%. Overall, the return on the Bloomberg US Treasury index was a negative 0.5%. But there was a bigger shift in European fixed income markets over the month. This followed a more hawkish statement from ECB President Christine Lagarde than markets had been expecting. The Bloomberg Pan-European Aggregate index delivered a negative return of 2.9% while the Bloomberg Euro Aggregate Corp. index lost 1.8%. US and Euro high yield both produced negative total returns. But even after this weak end of the year, fixed income also reflected the risk-on shift for the quarter overall. US and Euro high yield gained 4% and 4.7% respectively.

The All-Stock Gilt index returned 1.69% in sterling terms over the quarter. In yield terms, 2-year nominal yields fell by 0.70% to 3.55% and 10-year nominal yields fell by 0.45% to 3.65%. The modified duration of the index is 9.10 years. The Bank of England's Monetary Policy Committee increased the policy rate to 3.50%. The UK Debt Management Office held 16 nominal bond auctions during the quarter across a range of maturities.

5.5 Schroders Indirect Real Estate (SIRE)

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.

The strategy is currently being sold down, distribution paid will be used to increase the Fund's cash balance.

5.7 BlackRock

BlackRock	2022				2021				One Year	Two Years	Since Start 1/1/2013
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£50.81m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(14.4)	(4.4)	2.9	6.8	6.7	4.3	2.9	2.1	(9.2)	3.4	0.8
Benchmark	(14.1)	(4.0)	3.9	5.6	7.5	4.5	3.8	2.2	(8.6)	4.7	3.7
Difference	(0.3)	(0.4)	(1.0)	1.2	(0.8)	(0.2)	(0.9)	(0.1)	(0.6)	(1.3)	(2.9)

Reason for appointment: In December 2012, a sizable portion of the Fund's holdings with Rreef 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. In 2021 the allocation to BlackRock was increased following the closure of the Schroders SIRE fund.

Q4 2022 Performance and Investment Update

BR returned -14.4% for Q4 against a benchmark of -14.1%, returned -9.2% over one year against a benchmark of -8.6%. The Fund's valuers have a highlighted increased volatility and uncertainty in their valuations. This is not a 'material uncertainty clause' as was seen during COVID, however the valuers are relying more on sentiment than transaction evidence. The LDI crisis and associated bond market crash had several impacts on the UK property market.

Market Conditions

Navigating the commercial real estate market remains challenging for investors, however, the manager believes that now is the time for strategic positioning of portfolios along the themes of future growth, ahead of a cyclical upturn, and recognising the acceleration of structural change in a post pandemic world.

Debt costs remain above yields for prime properties, and lenders have become increasingly cautious. The correction in valuations is continuing across the UK commercial real estate market. However, the speed of revaluations could imply that a lot of the pain has already been felt. Increased debt costs, an unfavourable spread to yields, alongside an uncertain macro-economic backdrop has continued to take a toll. In turn, transaction volume across the key sectors has remained subdued throughout the quarter, this is likely to continue into the first quarter of 2023.

The current allocations, being overweight to high quality industrial and strong alternative sectors and being underweight to retail and office, the manager believes will result in a competitive return going forward.

Transactions: In Q4, the fund disposed of one asset for £22.80m; no acquisitions were completed during the quarter. The Fund completed the sale of CBXII, Milton Keynes, a multi let office and retail property extending to 162,150 sq. ft. The gross sale price reflected £141 per sq. ft. After the deduction of top ups to cover rent free and rental guarantees on vacant space, the price reflected a Net Initial Yield of 9.7%. The asset required substantial capital expenditure in the short term, as well as carrying significant future vacancy risk with multiple tenants not occupying their leased space post the pandemic.

5.8 Hermes

Hermes	2022				2021				One Year	Two Years	Since Start 9/11/2012
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£96.56m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**0.8**	10.5	(1.0)	10.5	(0.9)	2.2	(1.1)	0.6	20.9	10.8	8.5
Benchmark	**1.4**	1.4	1.4	1.5	1.4	1.4	1.4	1.5	5.8	5.8	5.9
Difference	**(0.6)**	9.1	(2.4)	9.0	(2.3)	0.8	(2.5)	(0.9)	15.1	5.0	2.6

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 0.8% in Q4 underperforming the benchmark by 0.6%. Over one year the strategy reported a one-year return of 20.9%, outperforming its benchmark by 15.1%. Since inception the strategy has provided a good, annualised return of 8.5%, outperforming its benchmark by 2.6%.

The HIF I portfolio has performed robustly in the second half of the year, remaining resilient in challenging trading conditions, including significant interest rate volatility around the so called 'mini budget'. Despite rising discount rates across the portfolio and a significant amount of capital returned to investors, total HIF I Net Asset Value ("NAV") reduced by 2.1% from 30 June 2022 to 31 December 2022.

Asset level trading performance has been robust, partly owing to the high contractual inflation linkage across the portfolio. The demand exposed assets ABP, IHR and Eurostar achieved at or above budget performance in 2022, (with Scandlines c.5% below an ambitious budget), though management remain cautious on the outlook for 2023 with lower global growth projections. UK power prices remain elevated, this has resulted in a positive impact on valuation at generating assets, partially offset by non-generating assets experiencing rising costs.

Project Orion

Project Orion aims to combine the Limited Partnership interests of HIF I and two single investor managed accounts into one single diversified Core/Core+ strategy. Orion provides an opportunity to simplify some of the historic administrative complexities of HIF I, whilst leveraging off the proven track record of its asset pool (and that of two HGPE managed accounts) in order to raise additional capital, to further diversify the fund and increase returns for investors.

How does Project Orion benefits HIF I Investors?

• Offers a more diversified portfolio in a simplified structure
• Limited Partners all invest into the same pool of assets (no sub-portfolios) in equal proportions (pro rata to their investment)
• Reduced overall fees with reduction in gross to net return spread, compared to HIF I for equivalent asset portfolio
• Performance Fees abolished
• Provides liquidity options for investors that are not currently available in HIF I
• Post completion liquidity option for HIF I LPs wishing to exit or reduce exposure
• Additional GP led liquidity process in 2030, subject to market conditions
• Individual secondary liquidity GP assistance on request during remaining term

Timeline

February 2023

- Orion LPA finalised
- Circulate amended HIF I LPA for review
- 10 February Orion fund documentation submitted to the FCA
- Draft valuation reports and PwC reasonableness opinion received
- Late February submit HIF I LPA to FCA for material change consent Subject to demand Secondary Adviser Appointed
- LPAC update meeting / Investor Update
- End of February updated know your client information provided

March 2023

- Early March FCA consent received for Orion
- Valuations approved by Infra ValCo within range determined by PwC reasonableness opinion
- Investor Pack circulated for signature
- Late March FCA consent received for HIF material change
- Late March Orion restructuring close
- Relevant assets transfer from HIF I to Orion Fund

5.9 Abrdn Asset Management

Abrdn	2022				2021				One Year	Two Years	Since Start 15/9/2014
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
140.79m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**(1.5)**	(2.1)	(1.4)	3.7	1.6	4.9	4.4	7.4	(1.4)	8.5	6.8
Benchmark	**2.1**	1.8	1.6	1.6	1.0	1.0	1.0	1.0	7.1	5.6	4.9
Difference	**(3.6)**	(3.9)	(3.0)	2.1	0.6	3.9	3.4	6.4	(8.5)	2.9	1.9

Reason for appointment

As part of the Fund's diversification from equities, Members agreed to tender for a Diversified Alternatives Mandate. Abrdn 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.

Over a number of years further investments have been made to ASAM, with the focus on increasing the allocation to Private Equity, with the total holding now £140.8m, which is 10.8% of the Fund, significantly higher than the strategic allocation of 9.0%. As part of the strategy review this overweight position will be reviewed with the potential to reduce the allocation, potentially to Hedge Funds, or to increase the strategic allocation level.

Performance summary

The Portfolio lost around -1.5% (net of fees) over the three months to the end of December. This was largely due to a lower September 30 valuation for the Advent IX private equity investment which we were able to reflect in October. Over one year the return of -1.4% underperforms the benchmark return of 7.1% by 8.5%. Since inception the strategy has returned 6.8%, outperforming the benchmark by 1.9%.

ASAM 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.

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

i) relative value strategies, intended to profit from price dislocations across fixed income and equity markets;
ii) ii) macro strategies, which are intended to benefit significantly from global trends, whether these trends are up or down, across asset classes and geographies; and
iii) iii) tail risk protection which is intended to offer significant returns at times of stress and more muted returns in normal market environments.

Outlook

The manager remains constructive on the outlook for macro strategies, which it believes are well placed to take advantage of the current trading climate. Although global central banks have started to catch up to inflation (and forward-looking inflation expectations), the path forward remains uncertain, likely keeping macro trading opportunities high. Macro strategies invest across equity indices, credit indices, currencies, commodities, and interest rates. They invest directionally across these markets, as well as on a relative value basis, i.e., one asset class vs. another. When central banks are tightening, and confusion across forward macroeconomic fundamentals is high, macro strategies have the most “tools in their tool kits” to capitalize on the market’s response function. It is this attractive backdrop for macro to persist for the foreseeable future.

The outlook for fixed income relative value strategies remains positive. The opportunity set continues to be very attractive not only in cash vs. futures basis trading, but in other traditional strategies such as asset swap spreads, yield curve arbitrage (cash bonds vs. cash bonds), macro, inflation, and cross-currency basis trading. With the end of quantitative easing across developed markets and the start of quantitative tightening in the US/UK and shortly in Europe, the amount and magnitude of the dislocations across fixed income instruments continues to be high. The manager expects interest rate volatility to likely moderate from the extreme levels reached in 2022 given the pace of Fed rate hikes is most likely to slow, with a pause also likely in the second part of the year. This should translate in less volatility in manager returns.

Credit should also become an increasingly attractive asset class, not only on a total return basis, but also for distressed and structured products. Significantly higher rates and wider spreads over the past year have created remote risk credit issues with high single digit yields and short-dated maturities. Moreover, a sustained period of high rates is likely to slow the global economy and present more defaults and restructuring opportunities. During these recent periods of higher volatility, investors often act irrationally, creating inefficiencies between and across assets and corporate capital structures. This phenomenon benefits those strategies that target relative value or arbitrage opportunities. Finally, structured credit is likely to benefit from favourable technical dynamics with less price support from the Fed and bank balance sheets for the foreseeable future.

While private equity deal flow was more muted in Q2 2022 due to the changing market conditions, the manager is starting to see a pick-up in activity in Q1 2023 and some renewed optimism. In the buyout space, we are seeing an increase in complex and value deals such as corporate carve-outs, as well as continued strong pricing for the highest quality, more resilient assets. Rising interest rates and lower liquidity and debt availability mean that larger deals are harder to achieve, with a consequent impact on pricing. In the growth space, there is an increasingly interesting opportunity set, with more attractive pricing and structures even for good quality, high growth companies addressing disruptive themes. Some investors and LPs are struggling with the denominator effect, as private market valuations have held up more strongly than public market valuations. This will cause a slowdown in fundraising during 2023.

5.10 Pyrford

Pyrford	2022				2021				One Year	Two Years	Since Start 28/9/2012
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
114.40m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**3.2**	(2.4)	(0.8)	1.5	1.3	0.3	1.1	0.9	1.6	2.6	3.2
Benchmark	**4.7**	3.3	6.3	3.1	4.0	2.7	3.6	1.7	17.3	14.7	8.5
Difference	**(1.5)**	(5.7)	(7.1)	(1.6)	(2.7)	(2.4)	(2.5)	(0.8)	(15.7)	(12.1)	(5.3)

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

Equities were the biggest source of profits in Q4. Overseas stocks contributed 1.2% to the Sub-fund and outperformed the FTSE All World ex-UK Index on the strength of contributions from Asian financials (AIA Group and United Overseas Bank). Large underweight positions in the United States, as well as in big information technology and consumer discretionary companies also contributed positively.

UK stocks account for about one third of the equity segment of the Sub-fund. These stocks gained 0.9% in absolute terms but lagged the FTSE All Share Index. Losses on Vodafone Group and Reckitt Benckiser offset gains on holdings in Legal & General, as concerns about the impact of the liquidity crisis in the Gilts market abated, Imperial Brands, which resumed its share buyback programme, and GlaxoSmithKline (GSK), which recovered from a poor third quarter when concerns about the potential cost of litigation faded. Vodafone Group is not performing well in Germany, and the EU industry regulator has taken a hard line on consolidation in the industry which constrains the company's ability to exit the operation.

The Sub-fund is built around four pillars: sovereign bonds, equities, currencies, and cash. The key drivers of returns are allocations across the four pillars, duration management and sovereign bond selection, and country and stock selection decisions within the equity segment. The asset allocation process is slow moving. Derivatives are used only to manage currency risk. Currency exposure arising from bond and equity selection decisions is adjusted based on long-term valuation models. Target allocations to bonds (57%), equities (40%) and cash (3%) did not change in Q4. The only significant adjustment was to lengthen the targeted duration of the bond portfolio to 3 years from 1.5 years. At the end of 2022, the actual duration was 2.8 years. The move reflects the investment manager's tentative view that upward pressure on yields will moderate as inflation begins to decline from peak levels.

5.11 Newton

Newton	**2022**				2021				**One Year**	**Two Years**	**Since Start 31/8/2012**
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
79.65m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**3.7**	(4.3)	(2.1)	(4.4)	3.7	(0.1)	2.4	1.1	(7.0)	0.1	3.5
Benchmark	**1.4**	1.1	0.9	0.8	1.0	1.0	1.0	1.0	4.3	4.2	4.4
Difference	**2.3**	(5.4)	(3.0)	(5.2)	2.7	(1.1)	1.4	0.1	(11.3)	(4.1)	(0.9)

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 3.7% in Q4, outperforming its benchmark by 2.3%. Over one year the strategy has returned -7.0%, underperforming its benchmark by 11.3%, although the return over two years is 0.1% against a benchmark of 4.2%. Newton's performance since inception is 3.5%.

The investment manager believes that the new regime for inflation, monetary policy and growth, against a backdrop of persistent geopolitical risk, warrants a dynamic and opportunistic approach to managing multi asset portfolios. In practice, this means that they aim to cover a broad spread of asset classes and remain nimble by supplementing physical holdings with futures and other derivatives which can help them capitalise on volatility and adjust the risk profile of the Sub-fund quickly.

The Sub-fund was defensively positioned at the beginning of Q4, leaving it exposed to lagging in a 'relief rally.' In that context, the 3.7% gain in the final quarter was a solid result, although the loss of 7% for the full year, a shortfall of more than 11% against the SONIA + 3% performance target, is disappointing. The investment manager's opportunistic approach worked well in the final quarter, and they need to build on that in 2023.

Equities were the single biggest source of profits in Q4, net of the cost of hedges used to guard against downside risk. Stock selection contributed positively because of the emphasis on relatively stable and reasonably valued companies, and exposure to a selection of energy and mining companies. Gains on individual stocks were supplemented by profits on tactical allocations to the U.S., European and Hong Kong stock markets through futures contracts, call options used to participate in market rallies and premiums earned from writing short term put options on specific stocks when implied volatility was mispriced.

The capacity to hunt widely has improved after the big surge in yields on government debt and the widening of credit spreads in 2022. In short, government bonds and credit are credible again, both in terms of potential returns and utility as diversifiers of equity risk. The investment manager also highlights the opportunities presented by the decoupling of regional economies and asset markets.

5.12 Insight (Mellon Corporation / Standish)

Insight	**2022**				2021				**One Year**	**Two Years**	**Since Start 20/8/2013**
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£66.67m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**5.7**	(1.3)	(3.8)	(2.6)	(0.7)	0.0	0.2	(0.1)	(2.0)	(1.3)	0.6
Benchmark	**1.0**	1.0	1.0	1.0	1.0	1.0	1.0	1.0	4.0	4.0	4.9
Difference	**4.7**	(2.3)	(4.8)	(3.6)	(1.7)	(1.0)	(0.8)	(1.1)	(6.0)	(5.3)	(4.3)

Reason for appointment

Insight 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

Q4 saw the BNY Mellon Targeted Return Bond Fund outperform its reference benchmark by 4.7%, providing a positive return of 5.7%. an inverse of the third quarter, the bulk of the period's positive alpha can be attributed to the fund's overweight to developed market duration. Over one year the strategy has returned -2.0% and over two years it has returned -1.3%, with a return of 0.6% since inception.

With material overweights in US, UK and European duration, the fund benefitted significantly from moderating developed market inflation as yields dropped precipitously from their late October peaks. The fund also benefitted from smaller overweights in local Mexican, South African and Korean duration.

The fund's large overweight to corporate credit and other risk assets made a large positive contribution to relative returns on the quarter. After a soft start to the period, risk assets rallied aggressively from late October through the end of the year. Secondarily, relative returns were boosted by the significant outperformance of EUR denominated risk assets as the bulk of the funds exposure to corporate credit was held in this currency.

At the country level, the fund suffered modestly from its underweight to Italian government debt with BTPS spreads tightening alongside those of corporate credit. While fundamentals did not favour tighter BTPS spreads in Q4, the strong environment for risk globally dominated this factor.

With risk free rates falling globally and spreads moving rapidly tighter, most fixed income assets saw significant positive total returns. In contrast to prior quarters, cash was one of the worst asset classes in Q4.

5.13 Currency Hedging

No new currency hedging positions were placed in Q4 2022.

6. Consultation

6.1 Council's Fund monitoring arrangements involve continuous dialogue and consultation between finance staff, external fund managers and external advisers. The Chief Financial 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, Chief Financial Officer

7.1 The Council's 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 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 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 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.

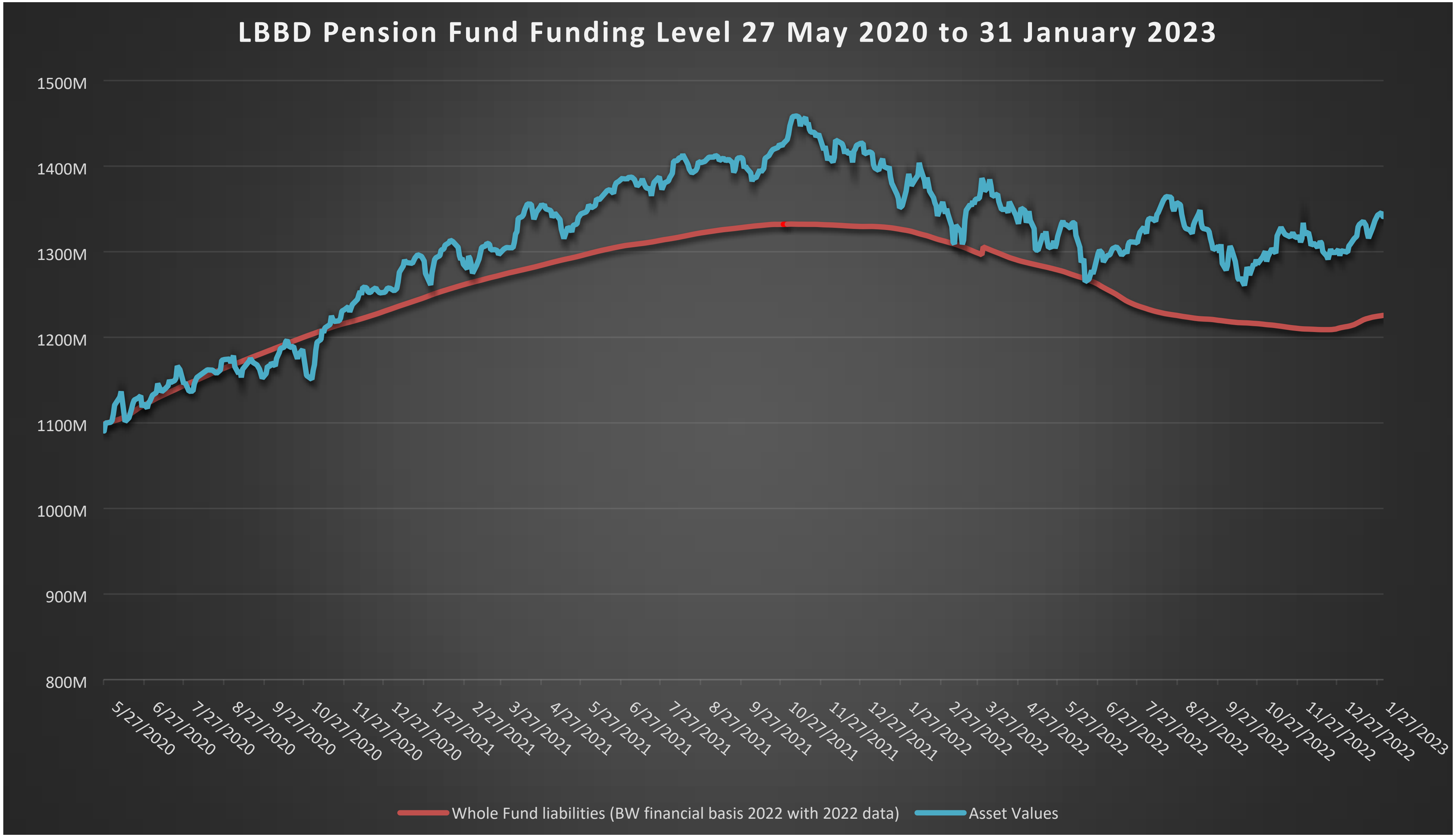
Background Papers Used in the Preparation of the Report:

- Northern Trust Quarterly Q4 2022 Report; and
- Fund Manager Q4 2022 Reports.

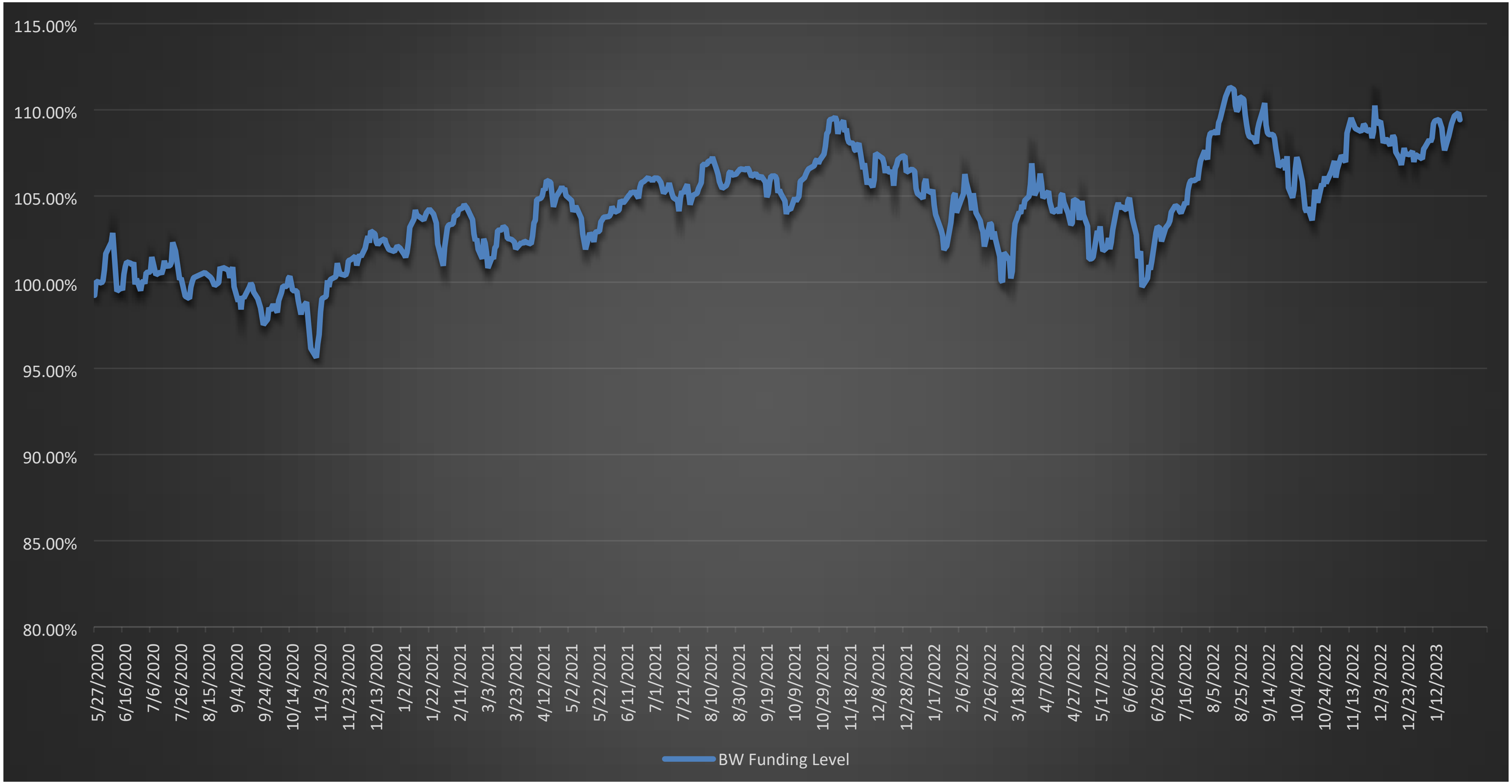
List of appendices:

Appendix 1 - Fund Asset and Liability Values 31 March 2013 to 31 January 2023
Appendix 2 - Definitions
Appendix 3 - Roles and Responsibilities

APPENDIX 1 - Fund Funding Level 27 May 2020 to 31 January 2023



Funding Level between 27 May 2020 to 27 January 2023



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APPENDIX 2

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	LBBD
	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
Admitted Bodies	
	Aspens Aspens 2 B&D Citizen's Advice Bureau BD Corporate Cleaning BD Schools Improvement Partnership BD Together Be First BD Trading Partner 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

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 Administrating 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

15 March 2023

Title: Administration and Governance Report	
Report of the Chief Financial Officer	
Public Report	**For Decision**
Wards Affected: None	**Key Decision:** No
Report Author: David Dickinson, Investment Fund Manager	**Contact Details:** Tel: 020 8227 2722 E-mail: david.dickinson@lbbd.gov.uk
Accountable Director: Philip Gregory, Chief Financial Officer	
Accountable Strategic Leadership Director: Fiona Taylor, Acting Chief Executive	

Summary

This report provides Members with an update on any administration and governance changes that have occurred and the potential impact that these changes may have on the Pension Fund. The report also provides an update on the Fund's one year and three-year cashflow forecast and on the London Collective Investment Vehicle (LCIV) as the Fund moves towards more pooled investments.

Recommendations

The Committee is recommended to note:

i. Pension Fund Budget 1 April 2023 to 31 March 2025,
ii. That the Fund is cash flow positive,
iii. London CIV update,
iv. Update from the Independent Investment Advisor,
v. The results of the 2022 actuarial valuation, including the improved funding level.

The committee is recommended to agree:

vi. The updated Funding Strategy Statement for a 30-day consultation with the Fund's employers and the final version to be approved by the Finance Director in consultation with the Chair,

vii. That no further prepayments are made to the pension fund for contributions and that the prepayment of £20m made for 2023/24 contributions is repaid to the Council, and

viii. That £25m worth of Baillie Gifford units are sold, with the cash used to fund the repayment.

1. Introduction

1.1 It is best practice for Members to receive regular administration data and governance updates. This report covers six main areas including:

i. Pension Fund Prepayment Options
ii. Pension Fund Budget 1 April 2023 to 31 March 2025,
iii. Cashflow to 31 December 2022,
iv. London CIV update,
v. Update from the Independent Investment Advisor,
vi. The results of the 2022 actuarial valuation, and
vii. The updated Funding Strategy Statement.

2. Pension Fund Prepayment Options

2.1 As part of the Council's savings options, it prepaid two years of pension contribution totalling £40m to the Pension Fund for 2022/23 and again for 2023/24. A prepayment of contributions is where a lump sum payment is made to the Pension Fund by the Council, and it is based on the likely employer contribution. During the year, the first-year prepayment is repaid in twelve equal amounts (i.e. £20m is repaid in twelve equal amounts), with the actual employer contributions paid each month to ensure that the correct contribution rates are paid.

2.2 For the prepayment, an amount is paid by the Pension Fund to the Council that equates to the discount rate. For 2022/23 to 2023/24 this equated to an effective interest rate of 4.0%. The prepayment allowed the Fund to meet capital calls for Infrastructure and to fund Diversified Alternatives, without the need for the Fund to sell any assets to Fund these investments.

2.3 The table below shows the current asset allocation against the target and range. The Fund is currently fully invested, with no short-term borrowing but with the £25m of prepayment made by the Council for employer contributions. The table illustrates this position:

Table 1: Current Asset Allocation

Asset Class	Current Position	Strategic Allocation Target	Variance	Range
Equities	55.4%	52%	3.4%	50-60
Diversified Growth	14.9%	15%	-0.1%	14-18
Infrastructure	7.4%	8%	-0.6%	7-11
Credit	5.1%	8%	-2.9%	6-10
Property	3.9%	5%	-1.1%	4-7
Diversified Alternatives	10.8%	9%	1.8%	7-10
Fixed Income	2.3%	3%	-0.7%	3-5
Cash	0.1%	0%	0.1%	0-1

2.4 While the prepayment from the Council has allowed the fund to cover the capital calls for alternatives and remain fully invested, there are a number of factors that make the prepayment less appealing, including:

1. There is greater scrutiny of the prepayments by auditors. While the prepayment has been agreed by the auditors, they have advised that this approach will come under further scrutiny in future.

2. The Council has a greater need for the cash to fund its developments and there is a preference within the Council to no longer make the prepayment.

3. The Fund is currently overweight equities and diversified alternatives, and a sale would reduce this overweight allocation to nearer the strategic target allocation, while also improving the allocations of all other assets as the total assets are reduced by £25m. The table below shows the

Table 2: Asset Allocation after £25m sale of Equities

Asset Class	Current Position	Strategic Allocation Target	Variance	Range
Equities	54.5%	52%	2.5%	*50-60*
Diversified Growth	15.2%	15%	0.2%	*14-18*
Infrastructure	7.6%	8%	-0.4%	*7-11*
Credit	5.2%	8%	-2.8%	*6-10*
Property	4.0%	5%	-1.0%	*4-7*
Diversified Alternatives	11.0%	9%	2.0%	*7-10*
Fixed Income	2.4%	3%	-0.6%	*3-5*
Cash	0.1%	0%	0.1%	*0-1*

2.5 The strategy is currently undergoing a strategic review and, as equities are an easier and cheaper asset class to divest from, especially if the sale is to cash, rather than a reinvestment, it is recommended to sale £25.0m of equities rather than alternatives.

2.6 Within equities, the Fund has three managers, as shown below.

Table 2: Asset Allocation after £25m sale of Equities by Manager

Equity Fund Manager Holdings as at 28 February 2023	Current Equity Market Values (£Ms)	Current Equity Market Values (£Ms)
Baillie Gifford	272.24	247.24
Kempen	227.56	227.56
UBS Equities	257.68	257.68
Equity Holding	**757.47**	**732.47**

2.7 The allocation to each equity manager should be evenly split. However, over time, the outperformance by Baillie Gifford and the underperformance by Kempen has resulted in Bailli Gifford having a much larger allocation than the allocation to Kempen. It is recommended that Members agree to sell £25.0m from Baillie Gifford.

2.8 The £25.0m is required to provide the Fund with the £20.0m for the repayment but also will leave £5.0m available to cover working capital requirements for the Fund as it moves to a cashflow negative position from April 2023.

2.9 It is therefore recommended that the prepayment of £20m for 2023/24 is ended and repaid to the Council on 31 March 2023 and that £25.0m is sold from Baillie Gifford Paris Aligned fund to provide funds for the repayment but also to provide cash to the fund to manage its working capital and also as part of a rebalancing of the asset allocation to equities and the individual holdings of the equity managers.

3. Pension Fund Budget 1 April 2022 to 31 March 2025.

3.1 Table 1 provides Members with the Fund's three-year budget to 31 March 2025.

	2022/23	2023/24	2024/25
Income	**£000s**	**£000s**	**£000s**
Council	8,681	9,068	9,341
Admitted bodies	467	448	415
Scheduled bodies	1,908	1,933	1,891
Total contributions from members	**11,055**	**11,449**	**11,646**
Council - Normal	27,822	27,801	28,635
Admitted bodies - Normal	1,938	1,860	1,724
Scheduled bodies - Normal	7,383	7,477	7,316
Pension Strain	250	500	250
Total contributions from employers	**37,393**	**37,638**	**37,925**
Total Contributions	**48,449**	**49,086**	**49,572**
Individual Transfers	**3,500**	**3,500**	**3,500**
Total Income Before Investments	**51,949**	**52,586**	**53,072**
Expenses			
Pensions			
Council	- 30,891	-34,999	- 36,049
Admitted Bodies	- 394	- 447	- 460
Scheduled Bodies	- 6,610	- 7,490	- 7,714
Total	**-37,895**	**-42,935**	**- 44,223**
Lump sums			
Council	- 3,957	- 3,957	- 3,957
Admitted Bodies	- 388	- 388	- 388
Scheduled Bodies	- 748	- 748	- 748
Total	**- 5,093**	**- 5,093**	**- 5,093**
Death grants	- 1,400	- 1,500	- 1,600
Payments to and on account of leavers	- 4,500	- 4,500	- 4,500
Total Expense	**- 48,888**	**- 54,028**	**- 55,416**
Net Income / (Expenditure) Excl Investments and Management Costs	**3,061**	**- 1,441**	**- 2,344**
Total Management Costs (cash)	**- 3,204**	**- 1,887**	**- 1,958**
Net Income / (Expenditure) Excluding Investments	**- 143**	**- 3,328**	**- 4,302**
Investment Income			
BlackRock	2,400	2,472	2,546
Hermes	500	515	530
Total	**2,900**	**2,987**	**3,077**
Net Income / (Expenditure) - cash	**2,757**	**- 341**	**- 1,225**

3.2 The three-year budget has fairly stable member numbers. A 10.1% increase in pensions in 2023/24 due to the current high level of inflation has risen the total expenses forecasted. There is an average salary increase of 6.6%, however as the council contribution will fall from 23% to 22%, this will partially offset the increase in income in 2023/24. Pension Strain is forecasted in increase as a result of the Council's savings programme due to central government funding cuts.

A decrease in management expenses is being forecasted as the prepayment from the council is repaid so no interest payments are due to be made. Excluding investments, the fund is expected to be cashflow negative for the next 3 years. There is investment income expected from two investments managers of approximately £3m per annum. Overall, the Fund is expected to be cashflow positive, after investment income, for 2022/23 and negative in the following 2 years.

3.3 On 1 April 2022 a £20m prepayment was paid to the Pension Fund from the Council, as agreed by Members at the March 2022 Committee. This prepayment helped to repay a short-term loan made to the Fund from the Council.

4. Cash flow to 31 December 2022

4.1 Table 2 below provides Members with the Fund's Cash flow to 31 December 2022.

Table 2: Actual Pension Fund Cash Flow to 31 December 2022

	2022/23 Budget £000's	2022/23 Forecast £000's	Over / Under £000's
Contributions			
Employee Contributions			
Council	8,700	9,147	447
Admitted bodies	500	488	-12
Scheduled bodies	2,000	1,968	-32
Employer Contributions			
Council	28,200	28,655	455
Admitted bodies	2,100	2,014	-86
Scheduled bodies	7,700	7,555	-145
Pension Strain	1,000	1000	-
Transfers In	3,500	3,042	-458
Total Member Income	**53,700**	**53,869**	**169**
Expenditure			
Pensions	-37,600	-38,063	-463
Lump Sums and Death Grants	-6,500	-6,431	69
Payments to and on account of leavers	-4,400	-7,120	-2,720
Administrative expenses	-800	-800	-
Total Expenditure on members	**-49,300**	**-52,415**	**-3,115**
Net additions for dealings with members	**4,400**	**1,454**	**-2,946**
Returns on Investments			
Investment Income	15,000	15,000	-
Profit (losses)	50,000	50,000	-
Investment management expenses	-4,500	-4,500	-
Net returns on investments	**60,500**	**60,500**	**-**
Net increase (decrease) in net assets	**64,900**	**61,954**	**-2,946**
Asset Values	**1,406,180**	**1,300,902.69**	**-105,277**
Liabilities	**1,305,583**	**1,211,364.95**	**-94,218**
Funding Level	**107.71%**	**107.39%**	**2.31%**

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5 London Collective Investment Vehicle (LCIV) Update

5.1 LCIV is the first fully authorised investment management company set up by Local Government. It is the LGPS pool for London to enable Local Authorities to achieve their pooling requirements. Below are the investments the Fund currently has with CIV.

	30/09/2022	Market Move	31/12/2022
Active Investments	**£**	**£**	**£**
LCIV Global Alpha Growth Fund	258,598,008	3,010,873	261,608,881
LCIV Global Total Return Fund	110,830,587	3,569,369	114,399,956
LCIV Real Return Fund	76,807,666	2,839,470	79,647,136
Total	**446,236,261**	**9,419,712**	**455,655,973**

5.2 Update from the London CIV

At 31 December 2022, the total assets deemed pooled stood at £25.8bn. Assets under management in the ACS stood at £12.6bn. The value of 'pooled' passive assets was £11.9bn, which is managed by L&G and BlackRock. AUM has increased due to more favourable market conditions from September 2022 to December 2022 by £2bn.

6. Independent Advisor Update: John Raisin

6.1 Introduction

This paper informs and updates the Committee in respect of a number of important issues relating to the LGPS at a national level. The issues covered in this paper are:

1. Climate Reporting.
2. Investment Pooling.
3. Pension Fund Accounts.
4. Consultation on changes to the Scheme Advisory Board (SAB) Cost Management process.
5. Reclassification of the Further Education sector.
6. LGPS Pensions Increase 2023.

6.2 It is hoped that this paper will be informative to all Members of the Pensions Committee and in particular to those who have joined the Committee following the May 2022 Council elections.

Climate Reporting

6.3 The Consultation on Governance and reporting of Climate Change risk which was issued on 1 September 2022 closed on 24 November 2022. It is understood that the DLUHC received approximately 120 responses to the Consultation.

6.4 The volume of responses means that there has been a delay in the DLUHC responding to the Consultation and issuing the final Regulations and any associated Guidance. It is still expected however that, as proposed in the Consultation, LGPS Funds will be required to produce their first Climate Risk Report under the new Regulations by December 2024. It is anticipated that the relevant new Regulations will apply from 1 April 2023 but that they will likely be issued after 1 April and applied retrospectively.

Investment Pooling

6.5 The Consultation on the future development of Investment (Asset) Pooling expected since 2019 has still not yet been issued. The Chancellor of the Exchequer Rt Hon Jeremy Hunt MP did however include reference to this in a Statement on “Financial Services” he made on 9 December 2022 which included that the Government “Will, in early 2023, consult on new guidance to the Local Government Pension Scheme (LGPS) in England and Wales on asset pooling.”

6.6 It is understood that the future of Investment Pooling has been subject to active consideration within the DLUHC and therefore a Consultation may reasonably be expected to be issued during 2023, although the actual timing is not clear.

Pension Fund Accounts

6.7 Regulation 53(1) of the LGPS Regulations 2013 (as Amended) requires Administering Authorities (including the London Borough of Barking and Dagenham) to “maintain a pension fund…” However at present in England the Pension Fund Account forms part of the overall Accounts of the Administering Authority. Due to delays in the preparation and publication of Administering Authority main accounts delays are consequently occurring in the publication of the Pension Fund Annual Report that each LGPS Administering Authority has a statutory responsibility to publish by 1 December each year.

6.8 Consequently on 3 August 2023 the Chair of the Scheme Advisory Board (SAB) wrote to the (then) Minister Responsible for the LGPS Paul Scully MP. The SAB letter urged the Government to support the separation of the Pension Fund Annual Accounts in England from those of their Administering Authority as has already happened in both Wales and Scotland. The SAB letter to Government included the following:

6.9 “The issues behind delays in the external audit of local authority accounts are much wider and not related to the preparation of pension fund annual accounts. The Board is firmly of the view that, so long as pension fund accounts remain part of the main local authority accounts, problems unrelated to pension fund accounts will continue to impact on the timely publication of the pension fund accounts and the pension fund annual report…”

6.10 “When it last met on June 6th , the Board agreed to recommend the separation of the pension fund annual accounts in England from the administering authorities’ own accounts, as is already the case for the LGPS in Scotland and Wales… Indeed, it is notable that in Scotland and Wales 80% of pension funds managed to publish audited pension fund accounts on or before 1st December 2021, whilst in England only 17% of audited pension fund annual reports were published by the same date”

6.11 “…It would also assist with reform of audit in local government more widely by removing a complex, and specialist area from the main administering authority accounts. This would be helpful as part of the wider goal in ensuring the timely and robust audit of local authority accounts, benefiting the health of the LGPS and local government finance in general.”

6.12 On 15 February 2023 the Minister now responsible for the LGPS, Lee Rowley MP sent a response to the SAB which indicated that the DLUHC is actively considering the SAB recommendation to completely separate the Pension Fund Annual Accounts of English LGPS Funds

6.13 "I recognise the scope and complexity of issues affecting external local audit, and the impact that this is having on reporting by local authorities and LGPS funds. The Pension Fund Annual Reports and the Scheme Annual Report are vital in maintaining transparency and accountability of the LGPS to members, employers, and taxpayers…"

6.14 "I welcome the Board's advice and recommendation to consider the separation of main authority accounts and the pension fund accounts, in addition to the package of support for local audit already in place. I have asked my officials to consider the scope for developing this further."

Consultation on changes to the SAB Cost Management process

6.15 The Public Service Pensions Act 2013 introduced into the major public service pension schemes, including the LGPS, a cost control mechanism to seek to ensure the cost of providing pensions is kept within a cost range. The cost control mechanism is primarily concerned with calculating the cost of providing benefits to Employees of each of the major public service pension schemes.

For the LGPS in England and Wales there are two cost control mechanisms:

- The employer cost cap (ECC) process as operated by HM Treasury.
- The future service cost (FSC) process as operated by the LGPS Scheme Advisory Board (SAB).

6.16 The seven major Public Sector Pension Schemes are subject to the cost cap process operated by HM Treasury. However, as the LGPS (alone) is a funded Scheme a second cost management process was established. This can use different assumptions around the cost of providing member benefits, for example, it can use a different discount rate to reflect that the LGPS is a funded scheme. The SAB process operates prior to the HM Treasury process, and recommendations made as a result (and accepted by government) are considered when calculating the scheme costs for the purpose of the HM Treasury process.

6.17 If either cost control process shows that the costs of providing benefits have risen or fallen outside of a target level, recommendations can or must (in certain circumstances) be made which would bring them back to target. These may include additions to or reductions to future benefits and adjustment of Employee contribution rates.

6.18 In 2021 the Government Actuary undertook a review of the cost cap process as operated by HM Treasury. This resulted in the Government making certain changes to this process including widening the corridor from 2% to 3% of divergence of pensionable pay from the target cost required to result in a breach of the cost control mechanism resulting in a reduction in the likelihood of changes to a Scheme.

6.19 On 30 January 2023 DLUHC launched a Consultation (which closes on 24 March 2023) entitled "Local Government Pension Scheme: Changes to the Scheme Advisory Board cost management process" The Consultation aims to update the SAB process in light of the 2021 changes to the HM Treasury cost control process and to provide the SAB with greater flexibility in how it responds to any cost variations.

Reclassification of Further Education sector

6.20 On 29 November 2022 the Office for National Statistics (ONS) announced that it had reclassified statutory Further Education (FE) sector (FE colleges, Sixth Form Colleges and designated institutions) and their subsidiaries in England. As a result of this review these bodies have been reclassified by the ONS from Non-Profit Institutions to the Central Government Sector. In effect this means that these bodies are now part of Central Government.

6.21 Schedule 2 Part 1 of the LGPS Regulations 2013 requires Further Education bodies to offer their non-teaching staff membership of the LGPS. Presently the Department for Education (DfE) does not provide a central government guarantee and therefore there is a high risk for a LGPS Fund should a Further Education body become insolvent. Furthermore, the DfE Policy paper "Further education reclassification: government response" (published 29 November 2022) states "The reclassification of the FE sector does not require any action for colleges with regards to the local government pension scheme." Therefore, the Government has not committed to providing any additional covenant assurances or guarantees for Further Education employers.

6.22 Going forward were central government to provide a guarantee it would potentially provide more support in respect of Further Education liabilities. Furthermore the SAB has stated that it will be discussing the wider implications of this change in classification with the Department for Education. However even if a guarantee were provided the impact of the reclassification would need to be assessed by each LGPS Fund for each of its Further Education employers and decisions taken as to whether any changes in the funding approach to such employers be made.

LGPS Pensions Increase 2023

6.23 On 20 February 2023, the Pensions Increase and Revaluation Order for public sector pensions was published alongside a written ministerial statement. These confirmed that LGPS pensions will be increased by 10.1% from April 2023.

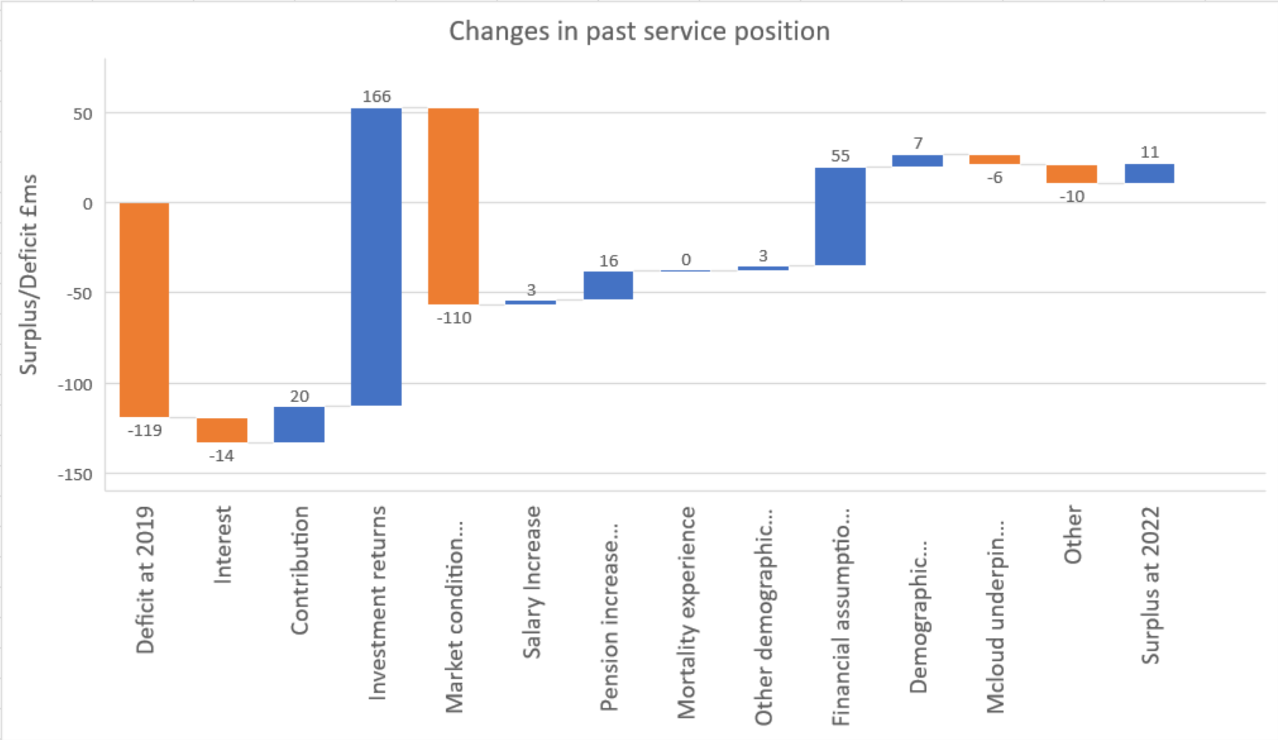
7. Triennial Valuation 2022

7.1 Every three years the Pension Fund is required to have a full valuation of its liabilities carried out by its actuary.

7.2 Officers have discussed the valuation assumptions with the actuary and agreed the main assumptions, including the deficit contributions rate, the discount rate and salary increase assumptions. As a result of these discussions the actuary could produce the whole fund valuation calculations. The results show that, at a whole Fund level, the deficit has reduced from £119m to £11m and the funding level has improved to 101% from the 2019 level of 90%.

7.3 The main contributors to the reduced deficit and improved funding level are outlined in chart 1:

Chart 1: Movements in Triennial Valuation Assumptions



7.4 Overall the fund has adopted a prudent discount rate of 4.3%. This is higher than the 4.0% used in the 2019 valuation.

7.5 Below is a summary of the agreed financial assumptions and the results:

Valuation Date	**2007**	**2010**	**2013**	**2016**	**2019**	**2022**
Past Service Liabilities	**£Ms**	**£Ms**	**£Ms**	**£Ms**	**£Ms**	**£Ms**
Employees	-£285	-£298	-£316	-£324	-£323	-£420
Deferred Pensioners	-£81	-£117	-£180	-£221	-£287	-£315
Pensioners	-£239	-£314	-£406	-£456	-£531	-£571
Total Liabilities	-£605	-£729	-£902	-£1,001	-£1,141	-£1,306
Assets	£530	£549	£636	£772	£1,022	£1,317
Surplus / (Deficit)	-£75	-£180	-£266	-£229	-£119	£11
Funding Level	88.00%	75.40%	70.60%	77.20%	90.00%	101.0%
Discount Rate	6.10%	6.10%	4.70%	4.10%	4.00%	4.30%
Salary Increases	4.70%	5.30%	3.80%	2.60%	3.00%	3.90%
Price Inflation	3.20%	3.30%	2.50%	2.10%	2.30%	2.90%

7.6 A meeting was held on the 10th of February 2023 with the with the actuary and the Fund's various employers to discuss the draft Triennial Results. Representatives from the University of East London, and a representative for many of the Fund's academies were present.

7.7 The draft triennial results indicated that the contribution rates for employers varied with some rates dropping and some remining the same.

8. Funding Strategy Statement

8.1 After the triennial valuation is completed the FSS must be updated. The purpose of the FSS, as stated by the Department for Communities and Local Government (DCLG) 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."*

8.2 These objectives are desirable individually but may be mutually conflicting. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

8.3 This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

8.4 The objectives of the Fund's funding policy are as follows:

i. to ensure the long-term solvency of the Fund and the long-term solvency of shares of the Fund attributable to individual employers,

ii. to ensure sufficient funds are available to meet all benefits as they fall due,

iii. not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk,

iv. to help employers recognise and manage pension liabilities as they accrue,

v. to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so,

vi. to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and

vii. to use reasonable measures to reduce the risk to other employers and ultimately to the Council Taxpayer from an employer defaulting on its pension obligations.

8.5 The actuary and officers have produced an updated FSS, which is included as Appendix 1 of this report. This will be distributed to all Fund employers and will be taken to the Pension Board for comments.

8.6 A summary of key changes includes:

- Cessation approach - given the volatility of gilt yields and the desire for a more stability and consistency the actuary has developed a new approach based on the actual investment strategy and a greater level of prudence

8.7 All proposed amendments have been made to the FSS and therefore, subject to any amendments put forward by Committee Members, the report in Appendix 1 is included for agreement by Pensions Committee Members for a 30-day consultation with the fund's employers and the final version to be approved by the Finance Director in consultation with the chair of the Pensions Committee.

9. Financial Implications

Implications completed by: Philip Gregory, Chief Financial Officer

9.1 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.

10. Legal Implications

Implications completed by: Dr Paul Feild Senior Governance Solicitor

10.1 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.

11. Consultation

11.1 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.

Appendix 1 – Funding Strategy Statement

Background Papers Used in the Preparation of the Report: None

APPENDIX 1

London Borough of Barking and Dagenham Pension Fund
Funding Strategy Statement

Contents

Introduction

This is the Funding Strategy Statement for the London Borough of Barking and Dagenham Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes the London Borough of Barking and Dagenham's strategy, in its capacity as administering authority, for the funding of the London Borough of Barking and Dagenham Pension Fund.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (*Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition)* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities.

Aims and purpose of the Fund

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive and invest contributions, transfer values and investment income.

Funding objectives

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

Key parties

The key parties involved in the funding process and their responsibilities are set out below.

The administering authority

The administering authority for the Fund is the London Borough of Barking and Dagenham. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme employers

In addition to the administering authority, a number of other Scheme employers participate in the Fund.

The responsibilities of each employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Department for Levelling Up, Housing and Communities (DLUHC).

Fund Actuary

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

Funding strategy

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent actuarial valuation of the Fund was carried out as at 31 March 2022. The results of the 2022 valuation are set out in the table below:

2022 valuation results	
Surplus (Deficit)	£10.9m
Funding level	101%

On a whole Fund level, the primary rate required to cover the employer cost of future benefit accrual was 21.5% of payroll p.a.

The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2022 valuation report.

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

Funding method

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service). These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

The approach by employer may vary to reflect an employer's specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

Valuation assumptions and funding model

In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund. A deduction of 0.3% p.a. is applied to the yield at the 20 year point to reflect the shape of the yield curve. A further deduction of 0.4% p.a. is applied to reflect the view that investors are willing to pay a premium for inflation-linked products in return for protection against unexpected inflation.

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. However, RPI is due to be aligned with CPIH (CPI but with allowance for housing costs) from 2030.

Therefore, reflecting the anticipated amendment to RPI from 2030 and therefore the relative difference between RPI and CPI, a deduction of 0.35% p.a. is made to the RPI assumption to derive the CPI assumption.

Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2022 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

Future investment returns/discount rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

It may be appropriate for an alternative discount rate approach to be taken to reflect an individual employer's situation. This may be, for example, to reflect an employer targeting a cessation event or to reflect the administering authority's views on the level of risk that an employer poses to the Fund. The Fund Actuary will incorporate any such adjustments after consultation with the administering authority.

A summary of the financial assumptions adopted for the 2022 valuation is set out in the table below:

Financial assumptions as at 31 March 2022	
CPI inflation	2.9% p.a.
Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay increases	CPI inflation + 1.0% p.a.
Discount rate	4.3% p.a.

Asset valuation

For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

The Fund's assets are notionally allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

Demographic assumptions

The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of the assumptions adopted are included in the Fund's 2022 valuation report.

McCloud/Sargeant judgments

When the Government reformed public service pension schemes in 2014 and 2015 they introduced protections for older members. In December 2018, the Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. A consultation has been run in relation to the changes proposed for the LGPS and legislation is now being drafted to bring forward these changes. We understand the updated Regulations are to be consulted on over the course of 2023 with revised Regulations effective from October 2023.

For the 2022 valuation, as required by the Department for Levelling Up, Housing & Communities, in calculating the value of members' liabilities it was assumed that:

- The current underpin (which only applies to those members within 10 years of their NPA at 31 March 2012) will be revised and will apply to all members who were active in the Scheme on or before 31 March 2012 and who join the post 1 April 2014 scheme without a disqualifying service gap;
- The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner);
- Where a member remains in active service beyond 31 March 2022 the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (again whichever is sooner);
- Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension; and
- The underpin will consider when members take their benefit.

Further details of the McCloud/Sargeant judgment can be found below in the Regulatory risks section.

Guaranteed Minimum Pension (GMP) indexation and equalisation

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found here.

The 2022 valuation approach for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, the Fund will be required to pay the entire inflationary increase.

Deficit recovery/surplus amortisation periods

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 14 years. The adjustment may be set either as a percentage of payroll or as a fixed monetary amount.

Where the valuation for an employer discloses a surplus then the level of required employer contribution may include an adjustment to amortise the surplus over an appropriate period.

The deficit recovery period or amortisation period that is adopted for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

Risk-sharing

There are employers that participate in the Fund with a risk-sharing arrangement in place with another employer in the Fund.

For example, there are employers participating in the Fund with pass-through provisions: under this arrangement the pass-through employer does not take on the risk of underfunding as this risk remains with the letting authority or relevant guaranteeing employer. When the pass-through employer ceases participation in the Fund, it is not responsible for making any exit payment, nor receiving any exit credit, as any deficit or surplus ultimately falls to the letting authority or relevant guaranteeing employer.

At the 2022 valuation, risk-sharing arrangements were allowed for by allocating any deficit/liabilities covered by the risk-sharing arrangement to the relevant responsible employer.

Contribution payments

Employers pay contributions on a monthly basis. Primary contributions are certified as a percentage of payroll and therefore amounts paid by employers each month will fluctuate in line with payroll each month. Secondary contributions can be certified as a percentage of payroll or as a monetary amount. Monetary amounts are payable in 12 equal monthly instalments throughout the relevant year.

Employers must pay contributions in line with the Rates and Adjustments Certificate but they may be able to alter the timing of contributions payable and/or pay in additional contributions with agreement from the administering authority. Employers should discuss with and gain agreement from the administering authority before making up front payments.

New employers joining the Fund

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

Admission bodies

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 calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution rate

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

Risk-sharing

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the admission body. 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 admission body:

1. **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.
2. **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 admission body would be responsible for the future liabilities that accrue in respect of transferred staff. The admission body'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.
3. **Fixed contribution rate agreed** - Under this option the admission body 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 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.

Although pensions risk may be shared, it is common for the new admission body to remain responsible for pensions costs where it relates to their decisions and it is unfair to burden the letting authority with that risk. For example, the admission body should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect on service accrued prior to contract commencement; and
- redundancy and early retirement decisions.

Legal and actuarial advice in relation to risk-sharing arrangements should be sought where required.

New academies

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at start

On conversion to academy status, the new academy will be allocated assets based on the active cover of the relevant local authority at the conversion date. The active cover approach is based on the funding level of the local authority's active liabilities, after fully funding the local authority's deferred and pensioner liabilities.

Contribution rate

The contribution rate payable when a new academy joins the Fund will be calculated taking into account the academy's individual membership and funding position on conversion.

Contribution reviews between actuarial valuations

It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority.

A contribution review may be requested by an employer or be required by the administering authority. The review may only take place if one of the following conditions are met:

(i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;

(ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or

(iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review. A request under this condition can only be made if there has been a significant change in the liabilities arising or likely to arise and/or there has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

Guidance on the administering authority's approach considering the appropriateness of a review and the process in which a review will be conducted is set out the Fund's separate Contribution review policy which can be accessed here. This includes details of the process that should be followed where an employer would like to request a review.

Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date, regardless of the direction of change in the contribution rates.

Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under the separate contribution review policy.

With the exception of any cases falling under Regulation 64(4), the administering authority will not accept a request for a review of contributions where the effective date is within 12 months of the next Rates and Adjustments Certificate.

Cessation valuations

When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Similarly, any surplus in the Fund in respect of the exiting employer may be treated differently to a payment of an exit credit, subject to the agreement between the relevant parties and any legal documentation.

In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario.

For example, if there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities are likely to be assessed on a "minimum risk" basis leading to a higher exit payment being required from (or lower exit credit being paid to) the employer, in order to extinguish their liabilities to the Fund and to reduce the risk of these liabilities needing to be met by other participating employers in future.

If it is agreed that another employer in the Fund will accept responsibility for the residual liabilities, then the assumptions adopted will be consistent with the current ongoing funding position, but additional prudence may be included in order to take into account potential uncertainties and risk e.g. due to adverse market changes, additional liabilities arising from regulatory or legislative change and political/economic uncertainties. The additional level of prudence will be set by considering the distribution of funding levels under a large number of economic scenarios, with the aim being to gain a reasonable level of confidence that the Fund will be able to meet its benefits obligations to the relevant members in future.

Exit credit policy

The Local Government Pension Scheme (LGPS) (Amendment) Regulations 2018 were introduced in May 2018 which allow administering authorities to make an exit credit payment to exiting employers. This will be reviewed on a case by case basis before any payment is made. Considerations will be based on any previous agreements made and discussions between the administering authority, the exiting employer and the guaranteeing employer (if relevant).

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 is on the basis that these employers would not have 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 when assessing whether an exit debt is payable by the employer, depending on the 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.

Managing exit payments

Where a cessation valuation reveals a deficit and an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, should it not be possible for the employer to settle this amount, providing the employer puts forward sufficient supporting evidence to the administering authority, the administering authority may agree a deferred debt agreement (DDA) with the employer under Regulation 64(7A) or a debt spreading agreement (DSA) under Regulation 64B.

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

Under a DSA, the cessation debt is crystallised and spread over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

Guidance on the administering authority's policy for entering into, monitoring and terminating a DDA or DSA is set out in the Fund's separate DSA and DDA policies document. This includes details of when a DDA or a DSA may be permitted and the information required from the employer when putting forward a request for a DDA or DSA.

Regulatory factors

At the date of drafting this FSS, the government is currently consulting on potential changes to the Regulations, some which may affect the timing of future actuarial valuations. This is set out in the *Local government pension scheme: changes to the local valuation cycle and the management of employer risk* consultation document.

Further details of this can be found in the Regulatory risks section below.

Bulk transfers

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

Links with the Investment Strategy Statement (ISS)

The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

Risks and counter measures

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

Financial risks

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.5% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll p.a.

However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

Demographic risks

Longevity

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will increase the liabilities by approximately 3% - 4%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. The Fund commissions bespoke longevity analysis by Club Vita in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

Non ill-health retirement costs

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health retirements. 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).

The administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

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.

Ill health 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.

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.

Climate risk

There are a large number of interlinked systemic long-term financial risks related to climate change which could potentially have a material impact on the assets and/or the liabilities of the Fund. The most obvious of these climate change risks will be the financial risks to the value of the Fund's assets, the potential increased volatility of markets and potential changes in life expectancy. It is possible that some of these factors will impact the assets and liabilities of the Fund in the same direction, although not necessarily by the same amount.

The Fund therefore has a fiduciary duty to consider climate change risk when making investment decisions and to ensure any decisions support the effective management of climate change. The Fund therefore expects their appointed investment managers to be informed about climate change risks and take investment opportunities accordingly within their processes. More detail is included in the Fund's Investment Strategy Statement.

Maturity risk

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meets its benefit payments.

The government has published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

Regulatory risks

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgments and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgments

The Court of Appeal judgment on the McCloud and Sargeant cases, relate to age discrimination against the age-based transitional provisions put into place when the new judicial pension arrangements were introduced in 2015. The members argued that these transitional provisions were directly discriminatory on grounds of age and indirectly discriminatory on grounds of sex and race, based on the correlation between these two factors reflected in the judicial membership. The Tribunal ruled against the Government, deeming the transitional provisions as not a proportionate means of achieving a legitimate aim.

The Government subsequently applied to the Supreme Court to appeal the judgment but their application was denied on 27 June 2019. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. A ministerial statement in response to this was published on 13 May 2021 and revised Regulations are awaited to bring a remedy into play.

At the time of drafting this FSS, Regulations and therefore confirmation of the remedy are not yet finalised and are expected in 2023.

Cost control mechanism

As a result of the public service pension schemes reforms, the Government established a cost control mechanism for all those schemes to ensure a fair balance of risks between scheme members and the taxpayer. The process has been complex and has still not been fully resolved. Although the 2016 cost cap valuation report for the LGPS has been published, at the time of writing there is still a challenge outstanding regarding the inclusion of McCloud in the cost cap. Therefore, there is still a possibility that the 2016 valuation may have to be revisited with the small chance that benefit improvements will be required and potentially backdated to April 2019.

For the purposes of the 2022 valuation, we have made no allowance for any potential benefit changes. The Fund's prudence allowance already allows for an element of regulatory uncertainty and any potential impact is not deemed to be material.

Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The proposals for flexibility on exit payments and for further policy changes to exit credits have been finalised, however, are still to be finalised for the remaining three proposals. This FSS will be revisited once the outcome is known and reviewed where appropriate.

Timing of future actuarial valuations

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. The results of the national Scheme valuation are used to test the cost control mechanism and HMT believed that all public sector scheme should have the cost control test happen at the same time.

Changes to employers required to offer LGPS membership

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. Given the significance of these types of employers in the Fund, this could impact on the level of maturity of the Fund and the cashflow profile. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

Employer risks

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required. In particular, the Fund will commission an employer risk review from the Fund Actuary on a regular basis, every three years as a minimum, to help identify the employers in the Fund that might be considered as high risk. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

Governance risks

Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

Monitoring and review

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

The most recent valuation was carried out as at 31 March 2022, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2023 to 31 March 2026.

The timing of the next funding valuation is due to be confirmed as part of the government's *Local government pension scheme: changes to the local valuation cycle and management of employer risk* consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2025. The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

PENSIONS COMMITTEE

15 March 2023

Title: Business Plan Update 2021 to 2023	
Report of the Chief Financial Officer	
Public Report	**Open**
Wards Affected: None	**Wards Affected:** None
Report Author: David Dickinson, Investment Fund Manager	**Contact Details:** Tel: 020 8227 2722 E-mail: david.dickinson@lbbd.gov.uk
Accountable Director: Philip Gregory, Chief Financial Officer	
Accountable Strategic Leadership Director: Fiona Taylor, Acting Chief Executive	
Recommendations The Committee is asked to note progress on the delivery of the 2021 to 2023 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 2021 to 2023 business plan. Appendix 1 provides a summary of the Business Plan actions from 1 April 2021 to 28 February 2023.

1.2 A Strategic Asset Allocation Review is being carried out by the funds Actuary and a full business plan for 2021 to 2023 has been drafted alongside this. This sets out the key tasks for the Pension Committee in respect to the Pension Fund issues for 2022/23 and was agreed by members at the meeting of the Committee in December 2020.

2. Comments of the Finance Director

2.1 The Business Plan includes 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. 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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Appendix 1

Business Plan Update

Month	Action Scheduled	By	Actual Activity
Jan 20	Fund Manager Meetings:		
	• Schroders	Officers	Meeting held with Schroders on 7th January 2020
	Meet the Manager: Baillie Gifford (BG)	Officers	Session with LCIV and BG attended on 16th January 2020
	Tender for Actuary and Investment Advisor	Officers	Invitation to tender issued
Feb 20	IAS 19 Data Collection (LBBD)	Officers	Submitted to Hymans Robertson
	Fund Manager Meetings:		
	• Equities: Kempen	Officers	Meeting held with Kempen on 5th February 2020
	• Equities: UBS	Officers	Meeting held with UBS on 27th February 2020
	Tender for Actuary and Investment Advisor	Officers	Interviews held on 24th and 26th February 2020
Mar 20	Fund Manager Meetings:		
	• Equities: Aberdeen Standard	Officers	Meeting held with Aberdeen Standard on 3rd March 2020
	Quarterly Pension Committee Meeting	All	Held on 11th March 2020
	Appointment of new Investment Advisor and Actuary	Officers	Contract to commence on 1st April 2020 and 1st July 2020 respectively
Apr 20	IAS 19 Results	Officers	To be included in Council's accounts
	Closure of Accounts	Officers	
	Fund Manager Meeting:		
	• Baillie Gifford	Officers	Meeting held on 22nd April 2020
	• Global Credit: BNY Standish	Officers	Meeting held on 17th April 2020
May 20	Closure of Accounts	Officers	
	Fund Manager Meetings:	Officers	
	LCIV Business Update	Officers	Meeting held on 21st May 2020
Jun 20	Quarterly Pension Committee Meeting	All	Held on 10th 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 in March 2021
	• Property: Blackrock	Officers	Meeting to be held in March 2021

Month	**Action Scheduled**	**By**	**Actual Activity**

Jan 21	Fund Manager Meetings:		
	• London CIV	Officers	Meeting held with LCIV on 15th
	External Audit	Officers	On-going
Feb 21	Pensions Committee Training: Equities	All	Training held on 25th
Mar 21	Fund Manager Meetings:		
	• Alternatives: Aberdeen Standard	Officers	Meeting held with Aberdeen Standard on 23rd
	• Property: Schroders	Officers	Meeting held with Schroders on 24th
	• Property: Blackrock	Officers	Meeting held with Blackrock on 16th
	Quarterly Pension Committee Meeting	All	Held on 17th
	Bi-annual Pension Board	Officers	Held on 17th
	Closure of Accounts	Officers	On-going
	Pension Internal Audit	Officers	On-going
Apr 21	Submission of Data for Employers Accounting report	Officers	Report produced by Barnett Waddingham in May
	Fund Manager Meetings:		
	• Property: Schroders	Officers	Meeting held with Schroders on 1st
	• Infrastructure: Hermes	Officers	Meeting held with Hermes on 26th
May 21	• Fund Manager Meetings:		
	• Property: Schroders	Officers	Meeting held with Schroders on 5th
	Credit: BNY Mellon	Officers	Meeting held with BNY Mellon on 26th
Jun 21	Quarterly Pension Committee Meeting	All	Held on 16th June 2021
	Fund Manager Meetings:		
	• Infrastructure: Hermes	Officers	Meeting held with Hermes on 8th
	• Equities: Kempen	Officers	Meeting held with Kempen on 17th
Jul 21	LCIV Business Update	All	Held on 16th
	Fund Manager Meetings:		
	• Contract Review: Heywood	Officers	Meeting held with Heywood on Administration Systems and Costs on 27th
Sep 21	Quarterly Pension Committee Meeting	All	Held on 15th
	Fund Manager Meetings:		
	• LCIV	Officers	Meeting held with LCIV on 17th
	• Insight (Mellon Corp)	Officers	Meeting held with Insight on 20th

	• Hymans	Officers	Meeting held with Hymans on 21st
Oct 21	Fund Manager Meetings:		
	• Insight (Mellon Corp)	Officers	Meeting held with Insight on 5th
Nov 21	Fund Manager Meetings:		
	• London CIV Business Update	Officers	Held on 18th
	Pension Fund Annual Report		
Dec 21	Quarterly Pension Committee	All	Held on 14th
	Fund Manager Meetings:		
	• LCIV	Officers	Meeting held with LCIV on 16th
Jan 22	Fund Manager Meetings:		
	• London CIV	Officers	Meeting held with LCIV on 20th
	External Audit	Officers	Postponed
Feb 22	Pensions Committee Training • Diversified Growth Funds (DGFs) • Multi Asset Credit (MAC) • Residential Property • Global Property	All	Held on 8 February
	Fund Manager Meetings:		
	Infrastructure: Hermes	Officers	Held 10th
Mar 22	Fund Manager Meetings:		
	• LCIV	Officers	Held 17th
	Quarterly Pension Committee Meeting	All	Held on 16th
	Bi-annual Pension Board	Officers	Held on 16th
	Closure of Accounts	Officers	Ongoing
Apr 22	Submission of Data for Employers Accounting report	Officers	30th and ongoing
	Prepayment	Officers	Paid on 1st
May 22	Fund Manager Meetings:		
	• Infrastructure: Hermes AGM	Officers	Held 5th
	• Contract Review: Heywood	Officers	Meeting held with Heywood on Administration Systems and Costs on 24th
Jun 22	Quarterly Pension Committee Meeting	All	Held on 15th June 2022

Jul 22	LCIV Business Update	All	Held on 21st
August 22	Fund Manager Meetings:		
	• BW: Triennial Valuation	Officers	Meeting held with Actuary on 9th
	• Infrastructure: Hermes Update	Officers	Held 12th
Sep 22	Quarterly Pension Committee Meeting	All	Held on 14th September
	FRS102 Cashflows for Academies	Officers	
Oct 22	Fund Manager Meetings:		
	• Insight (Mellon Corp)	Officers	Held on 6th October
	• Alternatives: ABRDN	Officers	Held on 6th October
	• Infrastructure: Hermes	Officers	Held on 11th October
	PWC: Internal Audit	Officers	Completed end of October
	Introduction to Heywood's: Insight	Officers	11th October
Nov 22	Fund Manager Meetings:		
	• Blackrock: Property	Officers	1st November 2022
	• Hermes: Infrastructure	Officers	29th November 2022
	Q3 ONS submission	Officers	18th November 2022
Jan 23	Quarterly Pension Committee Meeting	All	11th January 2023
	Fund Manager Meetings:		
	• London CIV	Officers	12th January 2023
	• Hermes: Infrastructure		24th January 2023
Feb 23	Employers Triennial Meeting with Actuary	All	10th February 2023
	Q4 ONS submission	Officers	17th February 2023

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PENSIONS COMMITTEE

15 March 2023

Title: Pension Fund Annual Report 2021/22	
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, Chief Financial Officer	
Accountable Strategic Leadership Director: Fiona Taylor, Acting Chief Executive	
Summary: This report presents the Pensions Committee with the draft Annual Report for the year ended 31 March 2022 and includes the draft 2021/22 Pension Fund Accounts. The Annual Report is available on the Council's website at: https://www.lbbdpensionfund.org/resources/	
Recommendations The Committee is asked to consider and note the draft Pension Fund Annual Report for 2021/22.	

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 subjected to audit by BDO prior to being released for publication. 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 2022;
ii. Pension Fund Three Year Budget,
iii. An analysis of fund assets as at 31 March 2022,
iv. An analysis of investment income as at 31 March 2022, and
v. A separately reported Pension Board section.

1.3 The Committee is recommended to note the Pension Fund Annual Report for 2021/22.

2. Consultation

2.1 The Council's Pension Fund governance arrangements involve continuous dialogue and consultation between finance staff and external advisers.

The S151 Officer and the Fund's Chair have been informed of the commentary in this report.

3. Financial Implications

Implications completed by: Philip Gregory, Chief Financial Officer

3.1 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.

4. Legal Implications

Implications completed by: Dr Paul Feild, Senior Governance Solicitor

4.1 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.

5. Other Implications

5.1 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:

None

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