MINUTES OF
PENSIONS PANEL

Wednesday, 14 December 2016
(6:03 - 7:06 pm)

Members Present: Cllr Faraaz Shaukat (Deputy Chair in the Chair), Cllr Sade Bright, Cllr James Ogungbose and Cllr John White

Observers Present: Bernie Hanreck

Advisors Present:

Apologies: Cllr Dominic Twomey, Cllr Edna Fergus and Cllr Jeff Wade

18. Declaration of Members' Interests

There were no declarations of interest.

19. Minutes (14 September 2016)

The minutes of the meeting held on 14 September 2016 were confirmed as correct.

20. Triennial Valuation Draft Results

Every three years the Pension Fund was required to have a full valuation of its liabilities carried out by its actuary. The Fund's actuary, Hymans Robertson, would provide a presentation to Members at this Panel on the Triennial Valuation process, the draft results and the process that needed to be followed prior to the valuation being signed off in March 2017.

Officers had 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 £266m to £228m and the funding level has improvement to 77.2% from the 2013 level of 70.6%.

Overall the fund has adopted a prudent discount rate of 4.1%. This was lower than the 4.7% used in the 2013 valuation. Members are asked to note that if the Fund used a discount rate of 5%, as used by the government's actuary, that its funding level would be 91%. The deficit recovery period had reduced from 20 years to 17 years and this reflected improvements within the performance of the Fund.

The actuary is in the process of finalising the contribution rates for the borough and all the admitted and scheduled bodies. The actuary and officers will produce a draft Funding Strategy Statement that will then be distributed to Fund employers for their views as part of a consultation.

Once this has been completed the final report can be prepared and the contribution rates certified. Any agreed changes to the Funding Strategy Statement can also be made. Both documents will then be reported back to the Committee's meeting in March 2017 for agreement.

The Panel noted:

i. The initial results of the actuarial valuation, including the improved funding level and reduced deficit recovery period;

ii. That the Funding Strategy Statement will be updated where necessary for the assumptions made by the actuary and consulted with admitted and scheduled bodies together with their proposed employer contribution rates; and

iii. That the final actuarial valuation results be reported to the March 2017 Pension Panel meeting.

21. Presentation by Hymans Robertson- Triennial Valuation

The Panel received a presentation from Barry McKay, Hymans Robertson and he covered the following areas:

2016 Actuarial Valuation

- Overview of a valuation
- Key funding assumptions (funding level up, deficit down by approximately £100m)
- Experience since 2013
- Whole fund valuation results (funding level improved, deficit reduced)

The National Picture

- so far up to 2016 (for comparison)
- Typical results and summary (contribution rates have remained generally stable or slightly decreased and the recovery period had reduced to seventeen years from twenty)

The Future

- future expectations for asset returns (the outlook is for lower returns)
- LGPS success story (reduced asset dependence and funds holding more assets than before to meet future benefit payments)

Dr McKay summarised by stating that it had been a very challenging actuarial period but was a very positive result with an increased funding level and reduced deficit contributions although there was potentially an increased future cost. Proposed contributions remained broadly the same but would vary by employer.

22. Pension Fund Quarterly Monitoring- July to September 2016

This report provided information for employers, members of London Borough of Barking and Dagenham Pension Fund ("the Fund") and other interested parties on how the Fund had performed during the quarter 1 July 2016 to 30 September 2016 ("Quarter 3"). The report updated the Panel on the Fund's investment strategy and its investment performance. Due to the technical nature of this report, Appendix 2 provided a definition of terms used in this report and Appendix 3 set out roles and responsibilities of the parties referred to throughout this report.

The Fund's externally managed assets closed Quarter 3 valued at £844.2m, an increase of £53.4m from its value of £790.8m as at 30 June 2016. The cash value held by the Council as at 31 March 2016 was £19.6m giving a total Fund value of £863.8m.

For Quarter 3 the Fund returned 5.3%, net of manager and custodian fees, outperforming its benchmark return of 4.4% by 0.9%. Over one year the Fund returned 17.4%, outperforming its benchmark of 16.6% by 0.8%. Over three years the Fund trails its benchmark by 0.7%, providing a return of 9.4, which exceeds the actuarial return target for the fund of 4.7%.

The Fund's 2014, 2015 and Q3 2016 quarterly returns, its 1, 2, 3 and year returns were provided in table 1 to the report.

A verbal update on the unaudited performance of the Fund for the period 1 October to 12 December 2016 was provided to Members at the Pension Panel.

The GMPT advised that in terms of fund asset allocation, 48.8% were in equities holdings, which is higher than the strategic allocation of 45% and higher than the highest range value of 47%. The increase above the limit is due to the significant devaluation of sterling against most currencies which has significantly increased the value of the Fund's unhedged equities. In addition, infrastructure is currently around 3% below its strategic allocation, with all other allocations within the allocation range bandings. Officers will be looking at the possibility of linking the equities held to the future funding of infrastructure or whether a better option would be to reduce equities to under 47%. As part of the strategy review, Aon Hewitt have been asked to put forward a recommendation of the best approach to both hold assets to fund infrastructure but also to maintain assets within their strategic allocation bandings.

Colin Cartwright (Aon Hewitt) gave his views on the current and future markets situation. He highlighted that asset class returns had done very well although global growth remained weak and the outlook on returns were depressed. Equity markets were volatile at present and interest rates remained low.

The Panel noted:

(i) The progress on the strategy development within the Pension Fund;

(ii) The currency hedges that were placed on the Fund's passive equity mandate on the 30th of September and 7th of October 2016;

(iii) The daily value movements of the Fund's assets and liabilities outlined in Appendix 1; and

(iv) The quarterly performance of pension funds collectively and the performance of the fund managers individually;

23. Administration and Governance Report

It was best practice for Members to receive regular administration data and governance updates. Administration data includes cash flow, member numbers, governance and consultations. This paper covered three main areas including:

i. Pension Fund Budget 1 April 2016 to 31 March 2019;
ii. Cash flow to 31 July 2016; and
iii. Pension Fund Stakeholder Meeting.

The Group Manager, Pensions and Treasury (GMPT) also highlighted that there had been a Pension Fund stakeholder meeting on 17 November 2016 and 24 stakeholders had attended including current members, employers and members of the Pension Board.

The GMPT also advised that an Actuary meeting was held on 17 November 2016 with the Fund's employers to discuss the Triennial results.

The Panel noted that there was no link shown at item 4.4 in the report and this would be e-mailed to Members by the Democratic Services Officer.

The Panel noted:

i. that the Fund is cash flow positive;
ii. the Fund's three-year budget for the period 1 April 2016 to 31 March 2019; and
iii. the Fund's 2016/17 cash flow was forecast to be significantly higher than the budgeted cash flow, predominantly due to investment returns.

24. London Borough of Barking and Dagenham Admission Policy

At present, the Pension Fund had a number of Admitted Bodies, some of which have been members of the London Borough of Baking and Dagenham Pension Fund ("the Fund") for a number of years.

As Administering Authority, the Council had the discretion to allow Admission Agreements with organisations that fit the criteria within the Local Government Pension Scheme ("the LGPS").

To ensure potential admitted bodies were aware of the requirements prior to joining the Fund an Admissions Policy had been drafted. The Admissions Policy would provide the structure and the governance requirements necessary to ensure the risks associated with allowing Admitted Bodies into the Fund were reduced.

The Panel were asked to agree a revised Admissons Policy, in light of changes to the Council's structures as a result of Ambition 2020 and the increase in Academies and Free Schools.

All applications to be an Admitted body within the Fund would be required to be agreed by the Pension Panel, with the recommendation that the due diligence and implementation of the Admission Policy was delegated to the Finance Director.

The Panel:

- Agreed the Pension Fund’s Admission Policy for 2017; and

- Delegated responsibility to the Finance Director to carry out the due diligence and implementation of the Admission Policy.

25. Business Plan Update 2016

The purpose of this report updated the Pension Panel on progress regarding the Pension Fund’s 2016 business plan.

Appendix 1 provided a summary of the Business Plan actions from 1 January 2016 to 30 November 2016 and the actions for the remainder of the year.

The Panel noted progress on the delivery of the 2016 Business Plan at Appendix 1 to the report.

26. London Borough of Barking and Dagenham Pension Fund Business Plan 2017

The Local Government Pension Scheme (“the LGPS) was an occupational pension scheme that had been established by Act of Parliament and was governed by regulations made under the Superannuation Act 1972. The London Borough of Barking and Dagenham Pension Fund (“the Fund”) is maintained under the Act.

The Fund was responsible for providing retirement and other benefits to employees of The London Borough of Barking and Dagenham (“the Council”). Fund membership was approaching 17,500 with 27 employers, including admitted and scheduled bodies. Administration of the Fund was the responsibility of the Council, which also had overall responsibility for the investment of the Fund’s assets and pension administration services to members of the Fund and their employers.

The publication of the Myners Report and the subsequent CIPFA “Principles for Investment Decision Making in the LGPS in the United Kingdom” (CIPFA’s Investment Code of Practice) and “Investment Decision Making and Disclosure”, recommended that the Section 151 officer prepare and submit to the Pension Panel (“the Panel”) an annual business plan (“the BP”) for the Fund.

The Business Plan identified and outlined the key tasks for 2017, with progress reported on at each quarterly Panel. The key tasks identified reflected the Panel’s commitment to developing a suitable investment strategy and monitoring procedures for the coming year which met the Fund’s objectives and complies with best practice.

The Business Plan outlined the operation of the Fund and included provision for training and development. The proposed training and development would equip Panel Members with the necessary skills to make informed decisions on the Fund's investments. A list of key tasks and milestones were outlined in Appendix 1 to this Business Plan.

CIPFA recommended that all Panel Members should have the necessary skills and knowledge to adequately fulfil their governance and fiduciary duties to the Fund Members. Training requirements and proposed training were outlined in section 10 to the report.

Further training for the Panel would be held on 2 February 2017 on the Pension Fund Strategy and Strategy review and following a questionnaire to Members at the March 2017 Panel, a 2017/18 training plan will be presented for Member approval at the June 2017 meeting.

The Panel agreed the Business Plan 2017.

27. Vote of thanks

The Chair, on behalf of the Panel, accorded thanks to the Strategic Director, Finance and Investment, who was leaving the Council at the end of December 2016. In particular they extended their good wishes and thanked him for his support to the Panel over the years.