

## PENSIONS PANEL

14 December 2016

<b>Title:</b> London Borough of Barking and Dagenham Pension Fund Business Plan 2017	
<b>Report of the Strategic Director, Finance &amp; Investment</b>	
Public Report	<b>For Information</b>
<b>Wards Affected:</b> None	<b>Key Decision:</b> No
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<b>Accountable Director:</b> Jonathan Bunt, Strategic Director, Finance & Investment	
<b>Summary:</b>  The Pension Fund Business Plan sets out the key tasks for the Pension Panel in respect to Pension Fund issues for 2017 and reflects the Pension Panel's commitment to put into action the investment strategy and monitor procedures for the future to ensure that the Fund meets its objectives and complies with best practice.	
The Panel is asked to:  1. agree the Business Plan for 2017, subject to amendments following matters raised on this agenda.	



# London Borough of Barking and Dagenham Pension Fund

## 2017 Business Plan



## **1 Introduction and Background**

- 1.1. The Local Government Pension Scheme (“the LGPS) is an occupational pension scheme that has been established by Act of Parliament and is governed by regulations made under the Superannuation Act 1972. The London Borough of Barking and Dagenham Pension Fund (“the Fund”) is maintained under the Act.
- 1.2. The Fund is responsible for providing retirement and other benefits to employees of The London Borough of Barking and Dagenham (“the Council”). Fund membership is approaching 17,500 with 27 employers, including admitted and scheduled bodies. Administration of the Fund is the responsibility of the Council, which also has overall responsibility for the investment of the Fund’s assets and pension administration services to members of the Fund and their employers.
- 1.3. The publication of the Myners Report and the subsequent CIPFA “Principles for Investment Decision Making in the LGPS in the United Kingdom” (CIPFA’s Investment Code of Practice) and “Investment Decision Making and Disclosure”, recommends that the Section 151 officer prepare and submit to the Pension Panel (“the Panel”) an annual business plan (“the BP”) for the Fund.
- 1.4. The BP identifies and outlines the key tasks for 2017, with progress reported on at each quarterly Panel. The key tasks identified reflect the Panel’s commitment to developing a suitable investment strategy and monitoring procedures for the coming year which meet the Fund’s objectives and complies with best practice.
- 1.5. The BP outlines the operation of the Fund and includes provision for training and development. The proposed training and development will equip Panel Members with the necessary skills to make informed decisions on the Fund’s investments. A list of key tasks and milestones are outlined in Appendix 1 to this BP.
- 1.6. CIPFA recommends 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 is outlined in section 10.

## **2. Pension Panel**

- 2.1 The Council has delegated responsibility for the management of the Fund's investments to the Pension Panel (“the Panel”). The Panel comprises of seven councillors and three non-voting representatives, including a Union, an employer and an employee representative. The names and their roles are summarised below:

### **Pension Panel Voting Members**

Chair:	Councillor Dominic Twomey
Deputy:	Councillor Faraaz Shaukat
	Councillor Sade Bright
	Councillor Edna Fergus
	Councillor James Ogungbose
	Councillor John White
	Councillor Jeff Wade

## **Non-Voting Members**

**Union Representative:** Gavin Palmer (GMB)

**Member Representative:** Bernie Hanreck

**Member Representative:** Dusty Amroliwala (UEL)

- 2.2 The Panel meets at least quarterly and its role is to deal with the management of Fund's investments in accordance with Regulations issued by the Secretary of State under Section 7 of the Superannuation Act 1972.
- 2.3 The Section 151 officer has overall responsibility for the financial management of the Fund and the administration of the pension scheme. The section 151 officer is Jonathan Bunt, Strategic Director, Finance & Investment (SDFI).
- 2.4 The Panel's objectives are to:
- i. approve all policy statements prepared under the LGPS Regulations.
  - ii. be responsible for the investment policy, strategy and operation of the Fund and its overall performance, including considering the Fund's liability profile.
  - iii. appoint and retendering of the Fund Actuary, Custodian, advisors to and external managers of, the Fund and agree the basis of their remuneration.
  - iv. monitor and review the performance of the Fund's investments including receiving a quarterly report from the Chief Finance Officer.
  - v. receive actuarial valuations of the Fund.
  - vi. monitor the LGPS Regulations, Codes of Practice or guidance issued by the Pensions Regulator and the National Scheme Advisory Board 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. select, appoint and terminate of external Additional Voluntary Contribution (AVC) providers and review performance.
  - viii. consider any recommendations made or views expressed by the London Borough of Barking and Dagenham Pension Board.

## **3. Pension Administration**

- 3.1 Pension administration is provided by the Council through the Pension Administration team who are responsible for paying the benefits due to the scheme members and for keeping the records of all other scheme members until their benefits become due.

- 3.2 Over the past 20 years the LGPS has had many minor adjustments and a few large-scale changes to its benefit structure. With these changes, transitional relief between schemes has occurred, which in practice means that the administration team must be conversant with the regulations throughout this period.
- 3.3 The Fund uses Altair, a system supported by Heywood Limited to manage its administration. This system is used by the clear majority of LGPS funds.
- 3.4 In 2013 the Fund implemented a document imaging process to transfer the current paper records to an electronic format. In 2016 the remaining paper files were back scanned to reduce the need to hold paper pension records and as part of the Council's accommodation consolidation strategy.
- 3.5 The quality of the data held is vital to the running of the Pension Fund and there are several additional checks undertaken to ensure information is held correctly, including annual benefit statements, national fraud initiatives, regular data reconciliations between payroll and the pension administration system, the use of a tracing agent and quality checking via Club Vita.
- 3.6 Where pensioners live abroad a "certificate of existence" is sent out as a further measure to prevent fraud within the Fund.
- 3.7 Pension Administration costs and activities are included in the appropriate CIPFA benchmarking group and the Government SF3 return. The most recent report is the SF3 2015/16, which compares the Fund with similar Councils within London.
- 3.8 A Pension Administration Strategy has been agreed and has been implemented.

#### **4. The Funding Level and Employers' Contribution Rate**

- 4.1 As at the 31 March 2016, the value of the Fund was £772m.
- 4.2 The draft 2016 triennial valuation calculated a funding level of 77.2% (70.6% in 2013) and a deficit recovery period of 17 years to maintain a stable employer contribution rate.
- 4.3 The Council's contribution is 23.5% for 2016/17 to 2018/19.
- 4.4 To achieve a 100% funding level and allow a stable contribution rate the Panel are committed to:
- commissioning a full actuarial valuation of the Fund every three years, as required by law, to determine employers' contribution levels;
  - reviewing funding level reports from the Fund's actuary, Hymans Robertson;
  - agree with the actuary to recover deficits through appropriate mechanisms;
  - monitor and review the actuarial and consultancy services; and
  - implement a de-risking strategy as the Fund's funding level improves.

## **5. Management of Fund Investments**

- 5.1 The Panel seeks a return on the investments of the Fund that enable 100% funding to be achieved from a stable employers' contribution rate by:
- reviewing managers' performance against those targets over quarterly, annual and three-year rolling periods, at quarterly Panel meetings;
  - having officers monitor the level of transaction costs (brokerage and stamp duty) incurred;
  - having officers meet quarterly with most fund managers or at least annually with all the fund managers; and
  - ensuring officers monitor the external managers' use of soft commission arrangements, if any.

## **6. Arrangements for Additional Voluntary Contributions (AVCs)**

- 6.1 The Panel aims to ensure that there is a varied selection of high-performing investment options available for contributors who wish to make additional voluntary contributions (AVCs).
- 6.2 The Panel will review the Fund's AVC arrangements regularly, with the next review scheduled for early 2018.
- 6.3 Currently the Fund's AVC is managed by Prudential Plc. The performance and options offered will be monitored by officers who, in the event of issues arising, will report this to the Panel.

## **7. Legislation**

- 7.1 The Panel aims to respond promptly to legislative changes with implications for the management and administration of the Fund. It seeks to achieve this by:
- considering reports on the implications for the Fund of relevant draft legislation;
  - closely monitoring new legislation affecting the LGPS; and
  - agreeing any actions necessary to ensure full compliance when the final legislation is enacted including any deadlines.

## **8. Myners Principles on Investment Decision-making**

- 8.1 A revised statement of the Myners principles for investment management by institutional investors were published by the Government in 2008. CIPFA has subsequently issued guidance to local authority pension funds on the application of the principles in a local authority context.
- 8.2 Principle 1 of the revised principles states that administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary for them to take them effectively and monitor their implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

## **9. Pension Boards**

- 9.1 As part of a Review of Public Service Pensions, published March 2011, Lord Hutton recommended several changes to “make public service pension schemes simpler and more transparent”. The Government carried this forward into the Public Service Pensions Act 2013, which requires the Department for Communities and Local Government (DCLG) to make regulations to establish a national Scheme Advisory Board and enabling each LGPS administering authority to establish local pension boards.
- 9.2 A key aim of the reform process is to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests in that process.
- 9.3 A Pension Board (“PB”) was established by 1 April 2015. The PB has the following Terms of Reference, which will be subject to an annual review:
- i. There will be a separate Panel and PB, with the PB functions as per those prescribed within the regulations.
  - ii. The PB will contain three employer representatives and two scheme member representatives (Union and Employee/Pensioner representative).
  - iii. PB Members will not be remunerated apart from reimbursement of basic transport and training costs.
  - iv. Biannual PB meetings to be held as a minimum, prior to the June and December Pension Panels. The PB will follow the Aon Hewitt method for governance review including:
    - 1. Direction – what is the fund trying to achieve (legislation, strategy and policy);
    - 2. Delivery – how the Fund meets its aims (business planning, performance monitoring and risk management); and
    - 3. Decisions – does the Fund have effective decision making (governance structure, behaviour and Pension Skills and Knowledge).
  - v. The February PB Meeting will cover the “Direction”, with the August PB covering “Delivery” and “Decisions”.
  - vi. Recommendations will be taken to the Panel immediately following each meeting. Should the PB be unhappy with the implementation of its recommendation(s) a report will be submitted to the next possible Council Assembly for consideration.



- vii. The PB will be chaired on an annual rotational basis.
- viii. Training will be provided prior to each Board Meeting, with two additional half day training sessions held during the year. Bespoke training will be provided to new PB Members as required.

## **10. Training and Development for Fund Panel Members**

- 10.1 The Review on Institutional Investment in the UK called the Myners Review, recommended that trustees should receive more formal training "to be able to take decisions with the skill and care of someone familiar with the issues concerned". The Panel aims to keep abreast of all developments affecting the LGPS by undertaking training and/or taking advice when necessary from external fund managers, external consultants and council officers.
- 10.2 The Panel expects the Section 151 Officer and relevant members of their service area (who are the Panel's main advisers) to keep up-to-date with developments in pensions and investment matters and to undertake training as required.
- 10.3 In addition the best practice guidance on the governance of pension funds issued by the CLG and the CIPFA guidance on the application of the Myners principles emphasise the importance of appropriate training and development for Panel Members to allow them to carry out their responsibilities effectively.
- 10.4 General training and annual events will be provided and are outlined below:
  - Induction: New members will receive a briefing on the responsibilities of the Panel and an introduction to the major policy and other documents setting out the Fund's management arrangements and investment strategy.
  - Annual meetings with the fund managers are scheduled. These meetings are specific to each fund manager and have a bespoke agenda to ensure additional information on the asset class managed is provided to Panel Members as well as covering areas of performance and governance.
  - Pension Fund Stakeholder Meeting which will cover the current issues including administration, governance, legislation and the Fund's funding position.
  - A range of seminars and conferences run by external agencies will be available to Members, including specific training for Panel Members.
- 10.5 CIPFA's Knowledge and Skills Framework

CIPFA has developed a Knowledge and Skills Framework for Panel Members and separately, for pension fund professionals with responsibilities in this area. The framework is intended to have two primary purposes:

  - as a tool for organisations to determine whether they have the right mix of skills to carry out their responsibilities for the fund; and

- as an assessment tool for individual Members to measure their progress and plan their development.

There are six areas of knowledge and skills relating to the LGPS, which CIPFA has identified as being the core technical requirements for those involved in decision-making. They are:

- legislative and governance context;
- accounting and auditing standards;
- procurement of financial services and relationship management;
- investment performance and risk management;
- financial markets and knowledge of investment products; and
- actuarial methods, standards and practices.

10.6 Three training sessions were held in January, February and March 2016 covering the following areas:

January: Assets Classes  
February: Knowledge and Skills  
March: Credit, Hedge Funds and Private Equity

10.7 Further training will be provided in early February which will cover a review of the Pension Fund Strategy and Strategy construction. Details will be confirmed at the December 2016 Pension Panel.

## **11. Assessment of training needs**

11.1 CIPFA recognises that there may be a wide range of skills and experience among councillors who are nominated to serve on Panel. They may include Panel Members with specialist expertise in investment matters on the one hand and those with no prior pension knowledge on the other. In these circumstances a ‘one-size-fits-all’ approach to training for Panel Members may not be appropriate.

11.2 A questionnaire will be given to all Members at the March 2017 Panel to help identify additional training needs. A 2017/18 training plan will be presented for Member approval at the June 2017 Panel to enable a training programme to be developed around the needs of Members and observers.

## **12. Decision Making**

12.1 The Panel will take advice as necessary to ensure that all decisions are made in the best interests of the Fund and its members. Advice is provided as necessary by the:

- Section 151 officer and their staff;
- Fund’s Actuary and Investment Advisor;
- Independent Advisor to the Panel; and
- external fund managers.

## **13. Communication**

- 13.1 The Panel will plan to keep the Fund's participating employers and members informed on matters that affect them by publishing a variety of documents, details of which can be found in the Fund's Communications Policy.
- 13.2 A pension specific website has been set up which includes details on pension administration and pension investments.
- 13.3 A Fund Annual Report is produced annually and placed on the Council's website, with a summary version distributed to all Fund members.

#### **14. Review and Evaluation of BP**

- 14.1 Panel will review and revise the BP annually at its December meeting and will evaluate performance against the action plan. The Panel will be provided with a BP update at quarterly meetings.

#### **15. Performance Management**

- 15.1 The monitoring of the returns on the Fund Investments is undertaken by officers on a daily basis with a quarterly return provided the WM.
- 15.2 At each Pension Panel a summary of the Fund's performance over the prior quarter is provided, with comparison of the actual returns after fees achieved against each manager's agreed investment benchmarks and targets.
- 15.3 Where a fund manager has underperformed over three consecutive quarters they will be asked to attend the next Pension Panel, where Members will be able to ask the fund manager questions and to gain an understanding of the reasons for the underperformance.
- 15.4 Where a fund manager has underperformed its benchmark over a rolling two year period officers will provide a review paper on the manager to be taken to the next available Panel. The review paper will outline the reasons for the underperformance and will include an overall recommendation as to whether the manager and their strategy are still appropriate for the Fund.
- 15.5 Where a significant change in strategy, personnel, general operations, or any other relevant issue is identified with a fund manager a paper will be taken to the next available Panel outlining the issue and recommending a course of action if required. If the issue is significant then an emergency meeting can be called following agreement by the Chair or deputy Chair.
- 15.6 Performance reports will include, where applicable, returns for the previous four quarters, year to date, one year, two years continuing to up to five years.
- 15.7 The fund manager's performance will be scored using a quantitative analysis compared to the benchmark returns, defined as follows:

□	<b>RED-</b> Fund underperformed by more than 75% below the benchmark
△	<b>AMBER-</b> Fund underperformed by less than 75% below the benchmark
○	<b>GREEN-</b> Fund is achieving the benchmark return or better

Underperformance will include any amber or red returns.

- 15.8 For all reports since 2014 returns are provided net of fees. WM have advised that reporting net of fees will likely reduce the Fund's returns by 0.3% to 0.4% compared to gross returns. If compared to some local authorities, this can be significantly higher if fund manager fees are high.

## **17. Corporate Governance**

- 17.1 The Regulations require that the Fund's "Statement of Investment Principles" (SIP) reflect the agreed policies and procedures which govern the operation of the Fund.
- 17.2 The appointment of any new fund managers and any other changes that the Panel makes to current procedures will need to be incorporated in the SIP. In any event, the Panel will review the Statement annually, to ensure compliance with best practice.

## **18. Risk Monitoring**

- 18.1 Risk has always been a part of the Fund but the past five years have shown that the failure to adequately identify, analyse and manage risk can have dramatic and wide-ranging consequences.
- 18.2 Managing the risk of an overall reduction in the value of the fund and maximising the opportunities for gains across the whole fund portfolio is a top priority. However, while the management of investment risk is rightly a fundamental concern, there is a great deal more to the effective management of risk in the LGPS.
- 18.3 The risk register provides a summary of the key risks the Fund is exposed to and how these risks are managed and / or avoided.
- 18.4 The risk register will be updated at least annually and will be taken to Members as part of the BP each year for noting.
- 18.5 Appendix 2 contains the 2017 Risk Register for Members to note.