

PENSION PANEL

15 March 2017

Title: Draft Funding Strategy Statement and Investment Strategy Statement	
Report of the Chief Operating Officer	
Public Report	For Information
Wards Affected: None	Key Decision: No
Report Author: David Dickinson, Group Manager Pensions and Treasury	Contact Details: Tel: 020 8227 2722 E-mail: david.dickinson@lbbd.gov.uk
Accountable Director: Kathy Freeman, Director of Finance	
Accountable Strategic Director: Claire Symonds, Chief Operating Officer	
Summary: <p>The Pension Panel is required to agree the aims and objectives outlined within the Pension Fund's Governance and Investment strategies. Following the triennial valuation two key strategy documents need to be reviewed and updated. These documents are the Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS). These documents outline the Fund's funding and investment strategy and have been updated to meet statutory requirements and guidance from the DCLG and the Scheme Advisory Board.</p> <p>Both documents are summarised in this report, with the draft Statements included as appendices to this report. Both report have been reviewed and agreed by the Pension Board as part of its review of decision making within the Fund.</p>	
<p>The Panel is recommended to agree:</p> <ol style="list-style-type: none">i. the draft Funding Strategy; andii. the draft Investment Strategy Statement. <p>The Panel is recommended to note:</p> <ol style="list-style-type: none">iii. that these final actuarial valuation results, along with the Rates and Adjustments Certificate will be provided by the actuary by 31 March 2017.	

1. Introduction and Background

- 1.1 London Borough of Barking and Dagenham (the Council) is the statutory administering authority for the Local Government Pension Scheme (LGPS) through the London Borough of Barking and Dagenham Pension Fund (the Fund).
- 1.2 As Administering Authority, the Council has delegated responsibility for the administration of the Fund to the Section 151 officer, advised by the Pension Panel and after taking expert advice from the Fund's Investment Advisor (Aon Hewitt) and the Fund's Independent Advisor, John Raisin.
- 1.3 Every three years the Fund is required to carry out a full valuation of its liabilities, which is completed by the Fund's actuary, with results agreed by the Administering Authority and reported to the Pension Panel.
- 1.4 The latest Triennial Valuation was completed in 2016, with officers agreeing the valuation assumptions with the actuary, including the deficit contributions rate, the discount rate and salary increase assumptions. The results of the valuation show that, at a whole Fund level, the deficit reduced from £266m to £228m and the funding level improved to 77.2% from the 2013 level of 70.6%.
- 1.5 Overall the Fund has adopted a prudent discount rate of 4.1%. This is lower than the 4.7% used in the 2013 valuation. The deficit recovery period has reduced from 20 years to 17 years and this reflects improvements within the performance of the Fund.
- 1.6 Prior to agreeing the final Triennial Valuation Results, a consultation process needs to be followed. As part of this process a meeting was held on the 17th November 2016 with the actuary and the Fund's various employers to discuss the draft Triennial Results. Representatives from the University of East London, Barking College and a representative for many of the Fund's academies were present.
- 1.7 Draft results were sent to employers in January 2017 for agreement, with the final Triennial Valuation to be agreed by March 2017 when the actuary provides the final Rates and Adjustments Certificate.

2. Funding Strategy Statement (FSS)

- 2.1 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.”*
- 2.2 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.

2.3 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.

2.4 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 Tax payer from an employer defaulting on its pension obligations.

2.5 The actuary and officers have produced a draft FSS, which is included as appendix 1 of this report. This was distributed to all Fund employers and was taken to the Pension Board for comments.

2.6 All proposed amendments have been made to the FSS and therefore, subject to any amendments put forward by Panel Members, the report in Appendix 1 is included for agreement by Pension Panel Members.

3. Investment Strategy Statement (ISS)

3.1 The FSS and the ISS are inextricably linked, with the administering authority setting the strategy, after taking advice. The ISS must comply with regulatory requirements specified in The LGPS Regulations 2012.

3.2 The ISS replaces the Statement of Investment Principles and, although it is a similar document, there are several additional disclosures that need to be covered including:

- The removal of the investment restrictions contained in schedule 1;
- Fund's approach to pooling investments, including collective investment vehicles (CIVs) and shared services;
- How social, environmental and corporate governance considerations are considered in the selection, non-selection, retention and realisation of investments; and
- The Fund's assessment of the suitability of all major asset classes.

- 3.3 Aon Hewitt, in consultation with officers, the actuary and the Independent Investment Advisor, has completed an Investment Strategy review. A training session is scheduled to be held on 13 March 2017 for the Advisors and officers to go through the recommendations of the strategy review with Members as part of Member training.
- 3.4 The draft ISS is included with this report for agreement, subject to any changes agreed as part of the Investment training session and Members recommendations. The Strategy Review will be covered as part of the private
- 3.5 The regulations around what needs to be included in the ISS is included in a report from the Independent Advisor as Appendix 3 of this report.

4. Consultation

- 4.1 Council's Pension Fund strategy development involves continuous dialogue and consultation between finance staff and external advisers. For the FSS there is a 30-day consultation with all Fund employers. The consultation process for this FSS is:
- i. A draft version of the FSS issued to all participating employers on 18 January 2017 for comment;
 - ii. Comments requested within 30 days (by 17 February 2017);

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

5. Financial Implications

Implications completed by: Kathy Freeman, Director of Finance

- 5.1 The Fund is a statutory requirement to provide a defined benefit pension to scheme members. The Pension Panel's role agreeing and monitoring the Fund's Governance and Administration strategies. This paper forms part of the reviewing process.

6. Other Implications

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

Background Papers Used in the Preparation of the Report:

- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009;
- The London Borough of Barking and Dagenham Annual Report 2015/16; and
- The London Borough of Barking and Dagenham Business Plan 2017.

List of appendices:

- Appendix 1 – draft Funding Strategy Statement
- Appendix 2 – draft Investment Strategy Statement
- Appendix 3 - Investment Strategy Statement Regulatory Requirements