

## PENSIONS COMMITTEE

17 March 2021

<b>Title:</b> Funding Strategy Statement and Investment Strategy Statement	
<b>Report of the Chief Operating Officer</b>	
Public Report	<b>For Information</b>
<b>Wards Affected:</b> None	<b>Key Decision:</b> No
<b>Report Author:</b> Jesmine Anwar, Pension Fund Accountant	<b>Contact Details:</b> Tel: 020 8227 3763 E-mail: <a href="mailto:Jesmine.Anwar@lbbd.gov.uk">Jesmine.Anwar@lbbd.gov.uk</a>
<b>Accountable Director:</b> Philip Gregory, Finance Director	
<b>Accountable Strategic Director:</b> Claire Symonds, Chief Operating Officer	
<b>Summary:</b> <p>The Pensions Committee members are 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>The Funding Strategy Statement is summarised in this report, with the final Statement included as appendix to this report. The report is to be reviewed and agreed by the Pensions Committee as part of its review of decision making within the Fund. The Investment Strategy Statement was produced following a Strategic Asset Allocation Review by the Fund's Investment Advisor in April 2020. The report was presented to the Pension Board for information.</p>	
The Committee is recommended to agree:	
<ol style="list-style-type: none"><li>i. 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 committee chair;</li><li>ii. the provisional Investment Strategy Statement.</li></ol>	

## 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 Pensions Committee and after taking expert advice from the Fund's Investment Advisor (Hymans Robertson) and the Fund's Independent Advisor, John Raisin.

## 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 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.

2.6 A summary of key changes includes:

- An update of policies on employer flexibilities
- Retail Price Index reform

2.7 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.

### **3. Investment Strategy Statement (ISS)**

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

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

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

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

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

3.5 The latest Investment Strategy Statement has been produced following a full Strategic Asset Allocation Review by the fund's Investment Advisor in April 2020. The report in Appendix 2 is included for agreement by Pensions Committee Members.

## 4. Consultation

- 4.1 Council's Pension Fund strategy development involves continuous dialogue and consultation between finance staff and external advisers. For the provisional FSS there will be a 30-day consultation with all Fund employers. The consultation process for this FSS will be:
- i. A draft version of the FSS issued to all participating employers for comment,
  - ii. Comments will be requested within 30 days,
- The Chief Operating Officer and the Pension Committee's Chair have been informed of the commentary in this report.

## 5. Financial Implications

*Implications completed by: Philip Gregory, Director of Finance*

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

## 6. Legal Implications

*Implications completed by Dr Paul Feild Senior Governance Solicitor*

- 6.1 The Funding Strategy Statement (FSS) and the Investment Strategy Statement are connected, with the administering authority setting the strategy, after taking advice. The FSS is a summary of the Fund's approach to funding liabilities.
- 6.2 The FSS shall be prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and taking account of changes brought about by the Local Government Pension Scheme (Amendment) Regulations 2018. The FSS shall also ensure that the regulatory requirements to set contributions to ensure the solvency and long-term cost efficiency of the fund, as defined by the Public Service Pensions Act 2013, are met. Furthermore the administering authority must have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA), the most recent being the guide "Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme" (2016) and to the Funds Statement of Investment Principles and the Investment Strategy Statement.

## 7. Other Implications

- 7.1 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
- Local Government Pension Scheme Regulations 2013 (as amended)
- Public Service Pensions Act 2013
- Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme (CIPFA)

**List of appendices:**

- Appendix 1 – Final Funding Strategy Statement
- Appendix 2 – Final Investment Strategy Statement