



# PENSION FUND ANNUAL REPORT 2016/17



## Contents

Section	Subject	Page
1.	Executive Summary	3
2.	Fund Governance and Administration	4-8
3.	Changes Affecting the LGPS	7
4.	Fund Management	8-9
5.	Investment Policy, Performance and Developments	10-14
6.	Member Training and Development	15-16
7.	Fund Membership Details	17-19
8.	Risk Management	20
9.	Actuarial Report on Fund Valuation	21
10.	Independent Auditor's Report	22-23
11.	Pension Fund Three Year Budget (2017/18 to 2019/20)	24-25
Appendix 1	Pension Fund Accounts 2016/17 <ul style="list-style-type: none"> <li>• Explanatory Foreword</li> <li>• Pension Fund Accounts</li> <li>• Notes to the Pension Fund Accounts</li> </ul>	26-48
Appendix 2	Governance Compliance Statement	49-52
Appendix 3	Funding Strategy Statement 2017/18 to 2019/20	53-98
Appendix 4	Investment Strategy Statement	99-118
Appendix 5	Communication Policy	119-129
Appendix 6	Actuarial Statement	130-132
Appendix 7	Pension Fund Risk Register	133-143
Appendix 8	Pension Board Terms of Reference	144-154

## **1. Executive Summary**

1.1 Welcome to the London Borough of Barking and Dagenham Pension Fund (“the Fund”) Annual Report for 2016/17. This report provides information for employers and members of the Fund and other interested parties on how the Fund has performed and has been managed during the year ended 31 March 2017.

The Fund is a Career Average Defined Benefit Local Government Pension Scheme and is overseen by a Pension Panel, which is a Committee of the London Borough of Barking and Dagenham (“the Council”), who are the sponsoring employer for the Fund. The Pension Panel consists of seven Councillors, with three nonvoting observers representing the Unions, members of the Fund and employers.

### **1.2 Performance**

During the year the market value of the Fund’s assets increased by £144.5m to £916.8m, which equates to an increase of 18.7%, net of investment and administration costs.

### **1.3 Strategy Changes**

During the year two significant changes were made to the Fund’s strategy including:

- 1) Increased the strategic allocation to infrastructure from 7% to 10%; and
- 2) A 75% currency hedge was placed on the Fund’s passive equity to capture some of the gain achieved by the strategy from the significant decrease in value of Sterling.

### **1.4 Fund Employers**

During the year Greatfields and Eastbury were admitted to the Fund as Academies. Two new employers, Schools Offices Services Limited and Cleantech, joined the scheme as admitted bodies. One admitted body, CGL left the Fund during the financial year. The total number of active and closed employers within the Fund was 30 as at year end.

### **1.5 Triennial Valuation**

The Fund’s triennial review was completed on 31 March 2016. Following strong investment growth, the funding level increased from 70.6% in 2013 to 77.2% at 31 March 2016.

### **1.6 Pension Boards**

The Public Service Pensions Act resulted in a number of changes to public service pension schemes. One of these changes required Councils to establish local Pension Boards by the 1<sup>st</sup> of April 2015. The Council established a Local Pension Board for the Fund by the 31<sup>st</sup> of March 2015, with the first Pension Board meeting held on the 27<sup>th</sup> July 2015.

The Pension Board Terms of Reference are included as appendix 7 of this report.

## **2. Fund Governance and Administration**

### **2.1 Statutory Background and Legal Framework**

The Fund is part of the Local Government Pension Scheme (LGPS). The LGPS is a statutory scheme, established by an Act of Parliament and governed by regulations made under the Superannuation Act 1972. Membership of the LGPS is open to all local authority employees except teachers, fire-fighters and police, who have their own separate schemes.

The Scheme is open to all employees aged 16 or over, whether they work full-time or part-time. The Council automatically enrolls all employees into the Fund, as long as they have a contract of employment of more than three months duration.

All members of the scheme can choose to leave at any time. During 2016/17 employees contributed per a scale ranging from 5.5% to 12.5% based on their full time equivalent rate of pensionable pay, which included basic pay, contractual overtime and regular bonuses. Employers contribute at a rate set by the actuary. Employees in the Scheme are entitled to a pension of one sixtieth of their final pensionable pay for each year of service. Further information regarding the various benefits offered can be found on the Fund's website address: [www.lbbdpensionfund.org](http://www.lbbdpensionfund.org)

### **2.2 Scheme Funding and Administration**

At 31 March 2017, the Fund was funded and administered as set out below:

#### **i. Funding**

The Scheme is a funded scheme, financed by contributions from the Council, other employers, employees, investment income and capital growth.

#### **ii. Administering Authority**

The Council, as Administering Authority, has legal responsibility for the Fund as set out in the LGPS Regulations. The Council delegates its responsibility for administering the Fund to the Pensions Panel, which is the formal decision-making body for the Fund.

#### **iii. Myners principles**

In 2000, the UK Government commissioned Lord Myners to review institutional investment in the UK as there were concerns that the behaviour of institutional investors, including pension funds, was distorting the economic decision making to the detriment of small and medium sized companies. Ten principles were outlined representing a model of best practice, which were incorporated into regulations applicable to the LGPS. In 2008 Treasury revised the ten principles down to six higher level principles which have now been adopted by DCLG. In response, CIPFA published a guide to assist authorities in the production of their compliance statements.

In July 2010, the Financial Reporting Council published the UK Stewardship Code which is designed to lay out the responsibilities of institutional investors as shareholders and provide guidance as to how those responsibilities may be met. The Code encourages better communication between shareholders and companies.

#### iv. The Pensions Panel

The Pensions Panel meets quarterly to discuss investment strategy and objectives, to examine legislation and other developments that may affect the Fund, and to review the performance of the fund managers. At all times, the Panel must discharge its responsibility in the best interests of the Fund.

All Panel Members have voting rights. Co-opted members do not have voting rights. The Panel is responsible for:

- determining the investment policy objectives;
- ensuring appropriate investment management arrangements are in place;
- appointment of investment managers, advisers and custodians;
- reviewing investment managers' performance;
- considering requests from organisations wishing to join the Fund as admitted bodies;
- commissioning the actuarial valuations in accordance with LGPS Regulations; and
- approving statutory reports.

In addition, as recommended by the Myners' Principles 2008, the Council has adopted the recommendations of the Knowledge and Skills Framework. The Pension Panel undertake various training throughout the year to equip them in their responsibility as Fund Trustees. The Pension Panel consisted of the following Members and observers at 31 March 2017:

<b>Pension Panel Member</b>		<b>Meetings Attended</b>
<b>Chair:</b>	Councillor Dominic Twomey	4
<b>Deputy:</b>	Councillor Faraaz Shaukat	5
	Councillor Sade Bright	4
	Councillor Edna Fergus	2
	Councillor James Ogungbose	4
	Councillor John White	2
	Councillor Jeff Wade	2
<b>Panel Observers</b>		
<b>Union Representative:</b>	GMB - Gavin Palmer	2
<b>Member Representative:</b>	Bernie Hanreck	4
<b>Employer Representative:</b>	UEL - John Headley	1

#### v. Conflicts of Interest

Conflicts of interest are managed as follows:

- a) When new Members join the Panel they are given training on their duties. It is emphasised that Members are required to act in the interests of the Fund members and should put aside personal interests and considerations.
- b) Members' personal or financial interest in items under discussion must be declared at the beginning of each Panel meeting.
- c) An adviser is available to the Panel to provide strategy advice. The actuary advises on the Fund's solvency and employer contribution rates, with officers available to give independent advice. Employee groups are represented on the Panel, with quarterly Pensions Panel meetings open to the public and with minutes and reports published.

### 2.3 Scheme Governance Policy Statement

It is important that appropriate governance arrangements are put in place representing the needs of all stakeholders in the Scheme. In accordance with LGPS Regulations 2007, the scheme administering authorities are now required to prepare a Governance Compliance Statement. This statement should set out how administering authorities comply with the best practice guidance as issued by the Secretary of State for Communities and Local Government and Myners Principles 2001 as Amended 2008. The scheme's governance compliance statement is included as appendix 3 of this report.

### 2.4 Fund Fraud / National Fraud Initiative

Since 1996 the Audit Commission has run the National Fraud Initiative (NFI), an exercise that matches electronic data within / between audited bodies to prevent and detect fraud.

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively. The use of data for NFI purposes is controlled to ensure compliance with data protection and human rights legislation. In 2006 the Audit Commission published a Code of Data Matching Practise, which, for the 2008/09 NFI exercise, has been updated to take account of new legislation as a result of the Serious Crime Act 2007.

The NFI currently matches all public sector pension scheme data to the Department for Work and Pensions (DWP) database of deceased persons. This acts as an automated life certification process for the Fund.

The Council is committed to the NFI process and undertook the data matching exercise in early 2013. Any cases where fraud is suspected will be pursued and where necessary, legal action taken. In addition the Fund has employed a tracing agency, who provides quarterly reports on scheme membership to prevent overpayment of pensions.

The Fund also uses the Government's Tell Us Once service, which is a service that informs the Fund when a death has been registered.

### 2.5 Administrative Management Performance

Key administration performance indicators are used outlined below the total processed, the target completion time and the percentage of the target achieved is outlined in table 1:

**Table 1: Administrative Management Performance**

	Total Processed
Number of Starters	796
Number of Transfer Value actual	49
Number of Refunds	169
Number of Deferred benefits	435
Number of Estimates	1197
Number of Retirements	318
Number of Death in service	10
Death in Retirement	163

### 3. Changes Affecting the LGPS

From 1 April 2014, the current LGPS ended and a new scheme was implemented. In the new scheme, all members have contribution rates based on actual, not full time equivalent, pay. The key elements of are:

**Table 2: LGPS 2014 for membership from 1st April 2014**

Provision	LGPS 2014
Basis of the Pension	Career Average Revalue Earnings
Accrual Rate (percentage of salary accumulated p.a. of membership)	1/49 <sup>th</sup> (previously Final Salary)
Revaluation Rate (the rate of increase for accumulated pension)	Consumer Price Index
Normal Pension Age	Equal to the individual member's State Pension Age - minimum 65 (previously 65)
Contribution Flexibility	Members can opt to pay 50% contributions for 50% of the pension benefit (previously no option)
Death in Service Lump Sum	3 x pensionable pay (no change)
Definition of Pensionable Pay	Actual pensionable pay to include non-contractual overtime and additional hours for part time staff
Vesting Period (minimum period to qualify for benefits)	2 years (previously 3 months)

The contribution bandings are summarised in table 3 below:

**Table 3 Contribution Bands and Rates for 2016/17**

Actual Pensionable Pay	Main Contribution	50/50 Section
Up to £13,600	5.50%	2.75%
£13,601 - £21,200	5.80%	2.90%
£21,201 - £34,400	6.50%	3.25%
£34,401 - £43,500	6.80%	3.40%
£43,501 - £60,700	8.50%	4.25%
£60,701 - £86,000	9.90%	4.95%
£86,001 - £101,200	10.50%	5.25%
£100,201 - £151,800	11.40%	5.70%
More than £151,800	12.50%	6.25%

## 4. Fund Management

### 4.1 Investment Managers

The Fund is invested in equity, fixed income, diversified growth funds, infrastructure, credit, property and diversified alternatives, which include Hedge Funds and Private Equity. Investments are made both in the United Kingdom and overseas. The Fund does not manage any fund's internally but uses thirteen external fund managers, the details of which are provided below:

<u>Aberdeen Asset Management PLC</u> Bow Bells House, 1 Bread Street London, EC4M 9HH	<u>Newton Investment Management Ltd</u> 160 Queen Victoria Street, London, EC4V 4LA
<u>Baillie Gifford &amp; Co</u> Calton Square, 1 Greenside Row, Edinburgh EH1 3AN	<u>Prudential/M&amp;G</u> Governor House, Laurence Pountney Hill London, EC4R 0HH
<u>BlackRock</u> 12 Throgmorton Avenue, London, EC2N 2DL	<u>Pyrford International</u> 79 Grosvenor Street, London, W1K 3JU
<u>BNY Standish</u> 160 Queen Victoria Street London, EC4V 4LA	<u>RREEF</u> 1 Appold Street, London, EC2A 2UU
<u>Hermes GPE</u> 1 Portsoken Street, London, E1 8HZ	<u>Schroders</u> 31 Gresham Street, London, EC2V 7QA
<u>Kempen International</u> Beethovenstraat 300, 1077 WZ Amsterdam PO Box 75666, 1070 AR Amsterdam	<u>UBS</u> 21 Lombard Street, London, EC3V 9AH,
<u>London CIV</u> 59½ Southwark Street London, SE1 0AL	

4.2 The work of the Pension Panel is supported by a number of officers, advisors and external managers as set out below:

- i. **Actuary:** Hymans Robertson LLP (20 Waterloo Street, Glasgow, G2 6DB)
- ii. **AVC Provider:** Prudential PLC (Governor's House, London, EC4R 0HH)
- iii. **Auditor:** KPMG (8th Floor, 15 Canada Square, London, E14 5GL)
- iv. **Custodian:** State Street Global Services (20 Churchill Place, E14 5HJ)  
The Fund's custodian is State Street Bank and Trust Company who provide safekeeping, settlement of trades, income collection and corporate actions data.
- v. **Legal Advisors:** Eversheds (1 Wood St, London, London EC2V 7WS)
- vi. **Investment Advisor:** Aon Hewitt (10 Devonshire Square, London, EC2M 4YP)
- vii. **Independent Advisor:** John Raisin (130 Goldington Road, Bedford, MK40 3EA)
- viii. **Performance Measurement:** WM Markets (525 Ferry Road, Edinburgh, EH5 2AW)
- ix. **Subscription bodies:** Local Authority Pension Fund Forum (LAPFF)

**Officers:** The Following officers are responsible for the management of the Fund:

Claire Symonds Tel: 020 8227 5513	Chief Operating Officer Email: <a href="mailto:claire.symonds@lbbd.gov.uk">claire.symonds@lbbd.gov.uk</a>
Kathy Freeman Tel: 0208 227 3497	Director of Finance Email: <a href="mailto:kathy.freeman@lbbd.gov.uk">kathy.freeman@lbbd.gov.uk</a>
David Dickinson Tel: 020 8227 2722	Group Manager – Treasury and Pensions Email: <a href="mailto:david.dickinson@lbbd.gov.uk">david.dickinson@lbbd.gov.uk</a>
Justine Spring Tel: 020 8227 2607	Pensions Manager Email: <a href="mailto:justine.spring@lbbd.gov.uk">justine.spring@lbbd.gov.uk</a>
Doreen Daly Tel: 020 8227 3343	Pensions Officer (Dealing with surnames beginning A - D) Email: <a href="mailto:doreen.daly@lbbd.gov.uk">doreen.daly@lbbd.gov.uk</a>
Kinny Phillips Tel: 020 8227 2296	Pensions Officer (Dealing with surnames beginning L - S) Email: <a href="mailto:kinny.phillips@lbbd.gov.uk">kinny.phillips@lbbd.gov.uk</a>
Madhvi Dodia Tel: 020 8227 2039	Senior Pensions Officer (Dealing with surnames beginning T - Z) Email: <a href="mailto:madhvi.dodia@lbbd.gov.uk">madhvi.dodia@lbbd.gov.uk</a>
Shelagh Clark Tel: 020 8227 3463	Pensions Officer (Dealing with surnames beginning E - K) Email: <a href="mailto:Shelagh.Clark@lbbd.gov.uk">Shelagh.Clark@lbbd.gov.uk</a>
Doreen Daly Tel: 020 8227 2095	Pensions Officer (dealing with Teachers' Pensions) Email: <a href="mailto:doreen.daly@lbbd.gov.uk">doreen.daly@lbbd.gov.uk</a>

## 5. Investment Policy, Performance and Developments

### 5.1 Powers of Investment

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) and require an Administering Authority to invest any Fund money that is not needed immediately to make payments from the Fund.

### 5.2 Investment Strategy

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 Panel on behalf of the Fund.

The investment strategy is usually set for the long-term, but reviewed periodically by the Panel to ensure that it remains appropriate to the Fund's liability profile. The investment strategy of the Fund is known as the Statement of Investment Principles (SIP) and a copy of this document can be found in Appendix 3 of this report.

### 5.3 Asset Allocation and Structure

The investment portfolio is weighted towards equities together with holdings in property, bonds, infrastructure and absolute return mandates. The risk of holding substantial equity investments is mitigated by investing in different markets across the world in many different sectors and stocks. The Fund investments are allocated to eleven fund managers and within different investment types to further diversify risk.

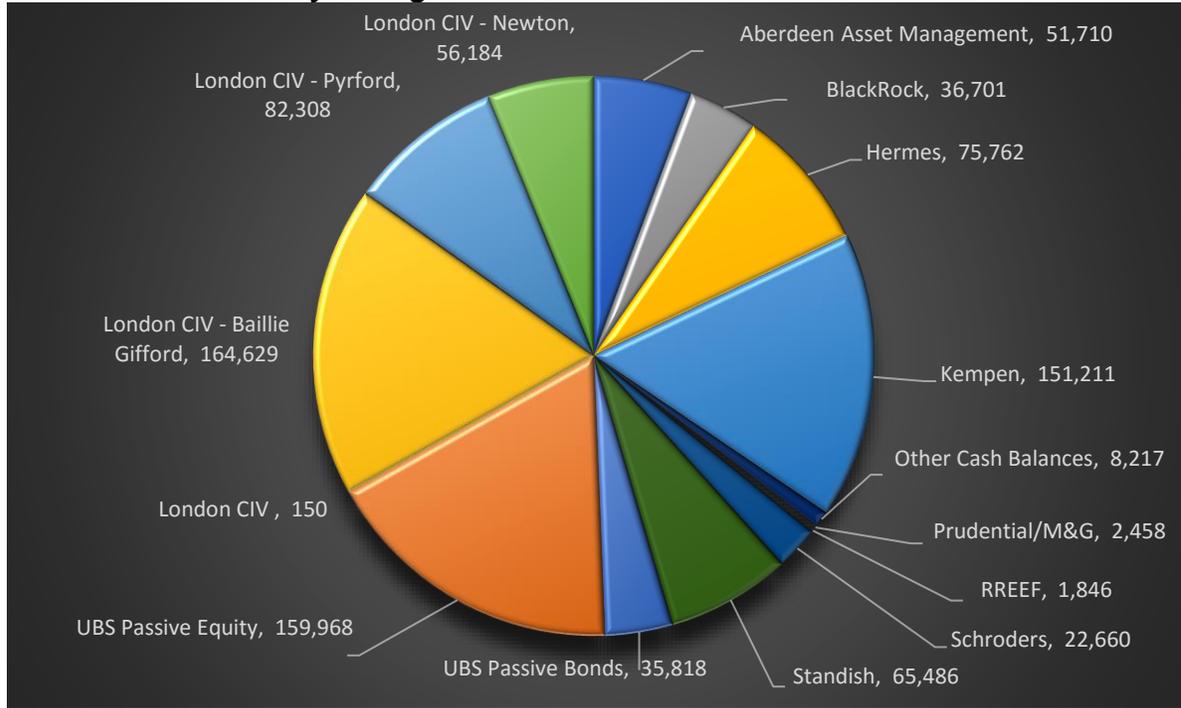
Table 4 below shows the Fund's investment portfolio by type, weighting and benchmark:

**Table 4: Fund Asset Allocation and Benchmarks as at 31 March 2017**

Investment Manager	Mandate	Asset Allocation %	Investment Area
Aberdeen Asset Management	Active	5.7	Diversified Alternatives
Baillie Gifford	Active	18.0	Global Equity (Pooled)
BlackRock	Active	4.0	Property Investments (UK)
Hermes	Active	8.3	Infrastructure (LLP)
Kemper	Active	16.5	Global Equity (Pooled)
Newton	Active	6.1	Absolute Return
Prudential/M&G	Active	0.3	Alternatives - UK Companies
Pyrford	Active	9.0	Absolute Return
RREEF	Active	0.2	Property Investments (UK)
Schroders	Active	2.5	Property Investments
Standish	Active	7.2	Global Credit
UBS Passive Bonds	Passive	3.9	All Share Fixed Income
UBS Passive Equity	Passive	17.5	Global Equity
London CIV	Passive	-	
Other Cash Balances	Cash	0.9	Cash

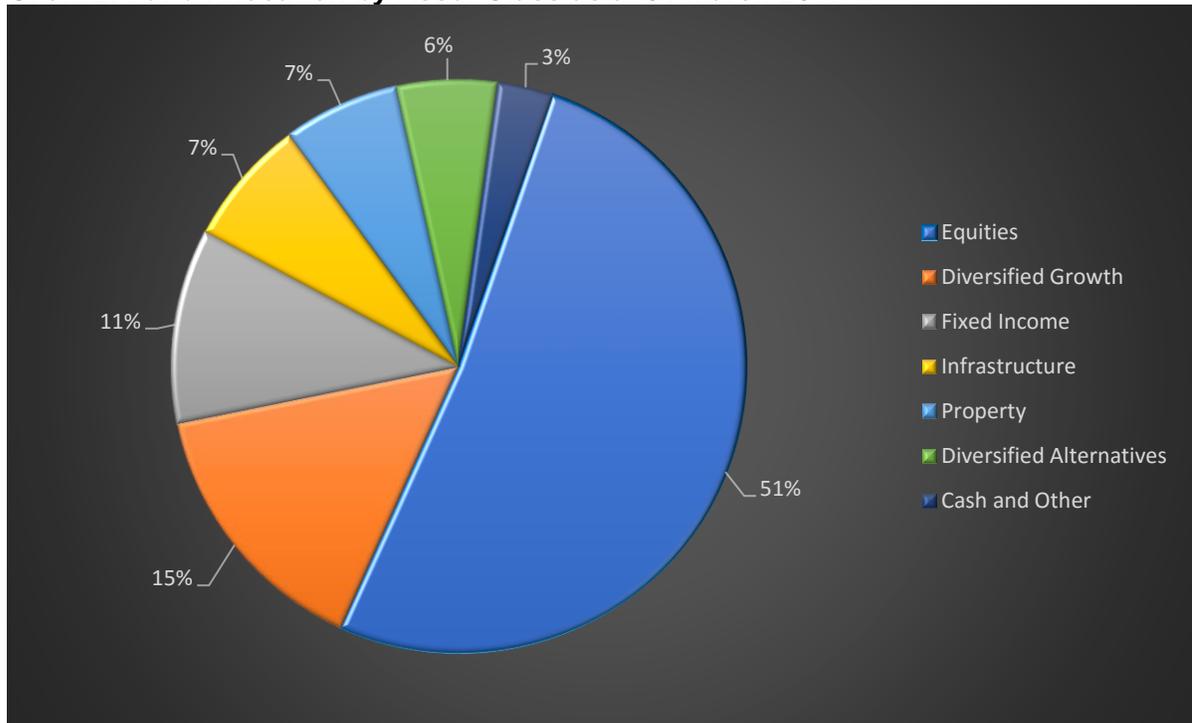
The split, by value, between managers is graphically shown in the pie chart below:

**Chart 1: Fund Value by Manager as at 31 March 2017**



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

**Chart 2: Fund Allocation by Asset Class as at 31 March 2017**



## 5.4 Monitoring the Investment Managers

Investment manager performance is measured by the World Markets (WM) Company. A summary of their report is included within the quarterly performance report which is taken to each Pension Panel meeting. To assist the Fund in fulfilling its responsibility for monitoring the investment managers, Council officers meet the investment managers regularly to review their actions and the reasons for their investment performance.

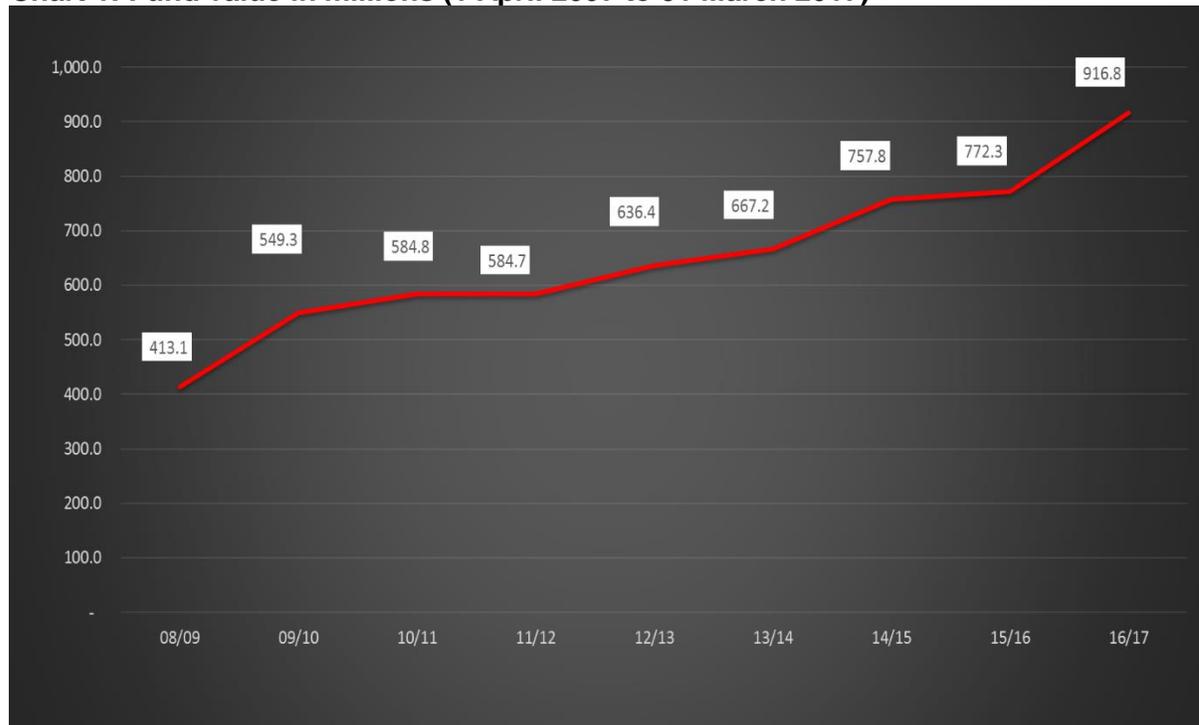
## 5.5 Fund Investment performance

For the twelve months to 31 March 2017 the Fund returned 18.0% against a benchmark return of 17.0%, representing an outperformance of 1.0%. Over three years the Fund has underperformed its benchmark by 0.2%, providing an annualised return of 10.7%, which exceeds the actuarial return target for the fund of 4.7% by 6.0%.

During the year equities provided good returns of between 29.0% and 30.5%. Infrastructure, Pырford and bonds provided high single digit returns. Standish outperformed a revised benchmark over one year, with a return of 5.0%. Aberdeen's return was largely flat for the year and underperformed their benchmark by 4.3%.

The Fund's value since 1 April 2009 is shown in Chart 1 below:

**Chart 1: Fund value in millions (1 April 2007 to 31 March 2017)**



## 5.6 Investment Manager Performance

Professional fund managers undertake the day-to-day management of the Fund's investments. Each fund manager works to a specific investment target in both the value of the funds invested and the returns required within the total value of the Fund. The Pension

Panel closely monitors how each manager performs and reviews the actual performance of the investment managers each quarter to ensure the Fund is performing in line with its own targets and against other local authorities.

The table below shows the performance of the Fund's invested assets against the agreed benchmark over the last 3 years. The relative return is the degree by which the Fund has over or (underperformed) its benchmark over these periods. All manager returns are reported net of investment costs. Each manager providing a positive return during the year.

**Table 5: Fund's Performance over 1 and 3 years**

	<b>12 Months to 31 March 2017</b>	<b>3 Years to 31 March 2017</b>
	<b>% per annum</b>	<b>% per annum</b>
<b>Fund</b>	18.0	10.7
<b>Benchmark</b>	17.0	10.9
<b>Relative Return</b>	<b>1.0</b>	<b>(0.2)</b>

Source: WM Company Performance Report

## 5.8 Fund Assets and Income

An analysis of fund assets (table 7) as at 31 March 2017 and investment income (table 8) during 2016/17 is outlined below. The reporting of this data is to assist with the production of the LGPS annual report and therefore the categories reported on below may differ from the accounts, which have a different reporting requirement.

**Table 6: Fund Assets as at 31 March 2017**

	<b>UK</b>	<b>Non-UK</b>	<b>Global</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Equities</b>	-	-	476	476
<b>Bonds</b>	36	-	65	101
<b>Alternatives</b>	165	-	165	330
<b>Cash</b>	8	-	-	8
<b>Total</b>	209	-	706	915

**Table 7: Investment Income Received in 2016/17\***

	<b>UK</b>	<b>Non-UK</b>	<b>Global</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Equities</b>	-	-	3.1	3.1
<b>Bonds</b>	-	-	0.6	0.6
<b>Alternatives</b>	2.2	-	-	2.2
<b>Cash</b>	0.1	-	-	0.1
<b>Total</b>	<b>2.3</b>	-	<b>3.7</b>	<b>6.0</b>

\* Investment income includes dividends and investment income that has been used to pay fund manager fees.

## 6. Member Training and Development

6.1 In October 2011 CIPFA published a Code of Practice on Public Sector Pensions Finance Knowledge and Skills (KSF), with the aim of facilitating sound governance in the decision making of the public bodies responsible for administering pension funds.

6.2 The framework provides a framework for the training and development of officers and members involved in the management and administration of public pension funds. CIPFA now requires a commitment for LGP schemes to adopt the key principles of the KSF and report how they have implemented the requirement of the code in the Annual Report.

6.3 This KSF is intended as:

- a tool to determine if there is the right skill mix to meet a scheme financial management needs;
- an assessment tool to measure their progress and plan their development; and
- a framework for organisations and individuals to tailor to their own circumstances.

6.4 The KSF requires differing degrees of competencies for officers and members. Officers are grouped into various categories requiring different levels of competencies. There are six key technical areas for which KSF should be acquired by those involved in the decision making of pension funds:

- Pensions Legislative and Governance context
- Pensions Accounting and Auditing Standards
- Financial Services procurement and relationship management
- Investment Performance and Risk management
- Financial Markets and Products Knowledge
- Actuarial methods standards and practices

6.5 The Fund is committed to ensuring that officers and members acquire relevant KSF which are developed through access to training and education from various sources including:

- Attendance at relevant conferences, seminars and training courses;
- Update on regulations and governance changes at every meeting;
- A minimum of 4 Pension Fund Panel meetings per year; and
- Training at Panel meetings where required.

6.6. The Fund has adopted the following statement concerning the training and development of Members and officer responsible for managing the Fund:

1. This Fund adopts the key recommendations of the Code of Practice on LGPS.
2. This Fund recognises that effective financial administration and decision making can only be achieved where those involved have the requisite knowledge and skills.
3. Accordingly, this Fund will ensure it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public-sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision making.

4. These policies and practices will be guided by reference to a comprehensive framework of K&s requirements such as that set in the CIPFA Pensions Finance KSF.
5. This organisation will report on an annual basis how these policies have been put into practice throughout the financial year.
6. This organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Chief Operating Officer, who will act in accordance with the organisation's policy statement, and where they are a CIPFA member, with CIPFA Standards of Professional Practice.

#### 6.7 Summary of training provided to Pension Panel and Officers.

1. Training was provided on the following Knowledge and Skills as outlined below.
  - i. Investments Strategy:
    - Investment returns and Economics, Bonds, Equities and Alternatives;
    - Currency Hedging;
    - Strategy construction; and
    - Investment Strategy Statement Requirements.
  - ii. Knowledge and Skills
    - Updates on Pensions Legislative, Governance, Accounting and Auditing Standards changes; and
    - Updates on Financial Markets and Products Knowledge.
  - iii. Triennial Valuation
    - Actuarial methods and Standards and practices.
  - iv. Alternatives
    - Hedge Funds and Private Equity
2. In addition, further training was provided to Pension Board Members, including:
  - v. Delivery and Decision Making
    - Business Plan, Triennial Valuation and Risk register and monitoring risks;
    - Collective Investment Vehicles;
    - Governance arrangements for the Board; and
    - Roles and responsibilities of the Pension Board and Pensions Panel.

## 7. Fund Membership Details

### 7.1 Scheme Membership

The chart below shows the membership of the Fund over 8 years. All of the Council's employees, except those covered by the Teachers' Pension Scheme Regulations, can join the Council's Pension Scheme. The LGPS regulations also provide for specified bodies (employers) to be admitted in to the Fund.

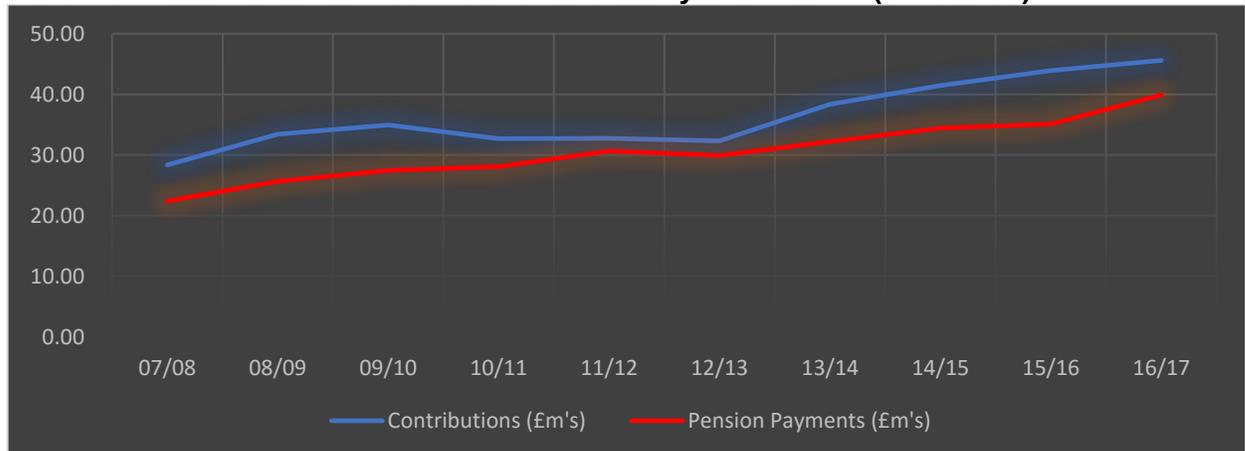
**Chart 2: Scheme Membership (2008-2017)**



### 7.2 Members Cash Flow

The chart below summarises the contributions paid to the Fund and the amounts paid out by the Fund in respect of members over the past 8 years. The total contributions have increased in 2016/17 because of increased employer contributions.

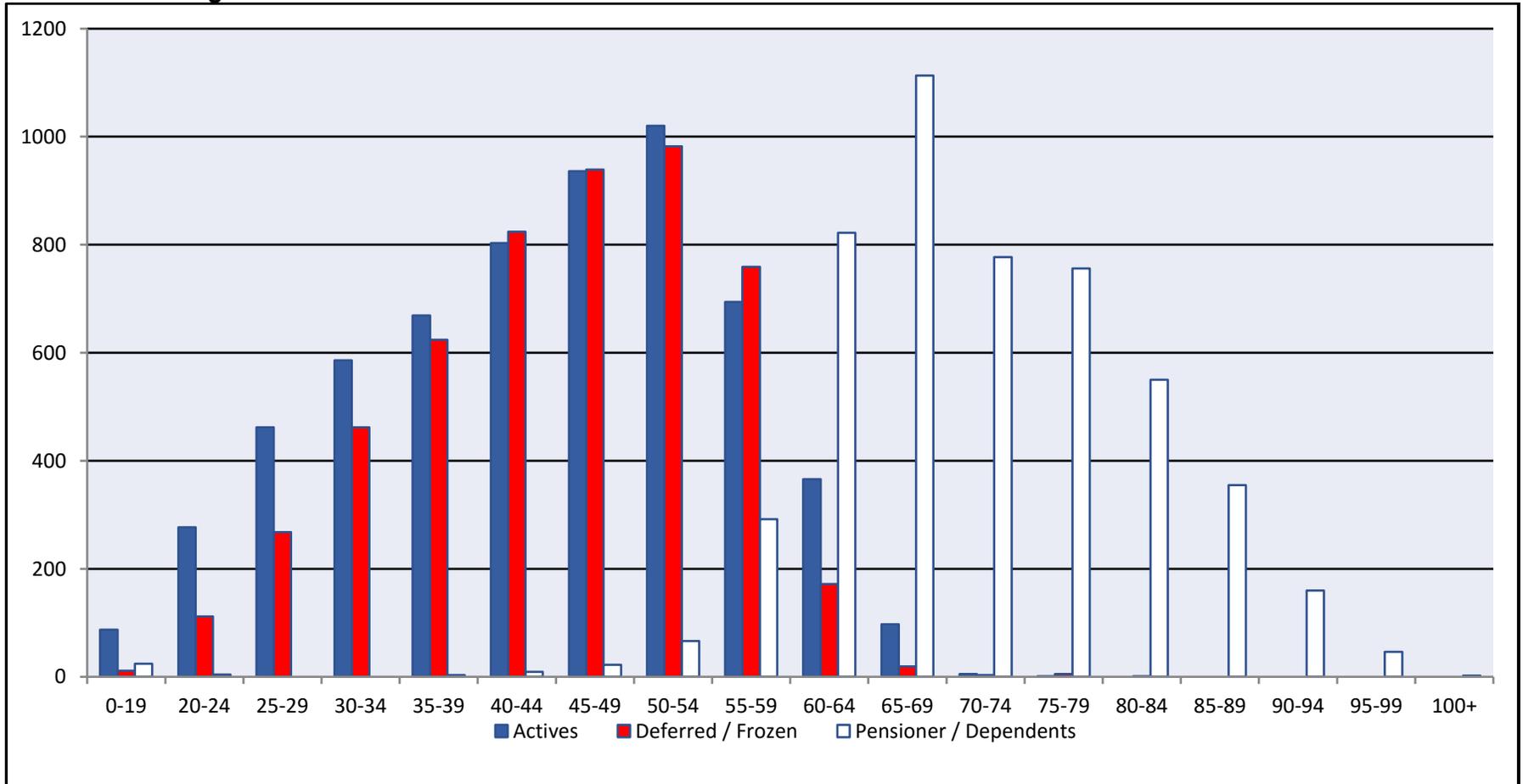
**Chart 3: Contributions Received and Pension Payments Made (2007-2017)**



### 7.3 Membership Details

As at 31 March 2017 the Fund had a total membership of 18,099, split into 6,477 active members, 5,672 deferred members 5,472 pensioners and 467 undecided members. The Fund membership is split 67.6% female and 32.4% male, with six pensioners over 100 years old and the eldest pensioner aged 105. Chart 4 shows the Fund age profile at 31 March 2017.

**Chart 4: Fund Age Distribution as at 31 March 2017**



**7.5 Employers:** The Scheme had thirty two employers as at 31 March 2017. A summary of the employers analysed by scheduled body and admitted body and separated further into active (with active members) and ceased (no active members) is provided below:

<b>Administering Authority and Scheduled bodies</b>	
The London Borough of Barking and Dagenham (active) Barking College (active) University of East London (active) Magistrates Court Riverside Academy (active) Thames View Infants Academy(active) Thames View Junior Academy (active) Warren Academy (active) Sydney Russell Academy (active) Dorothy Barley Academy (active) Goresbrook Free School (active) Riverside Bridge (active) Riverside Free School (active) Partnership Learning (active) Eastbury Academy (active) Greatfields Free School (active) Elutec (active) Partnership Learning (active)	
<b>Admitted Bodies</b>	
Age UK (previously Age Concern) Abbeyfield Barking Society Barking & Dagenham Citizen's Advice Bureau CGL Disablement Assoc. of Barking and Dagenham Schools Offices Services Ltd East London E-Learning	Laing O'Rourke Elevate LLP May Gurney Laing O'Rourke RM Education The Broadway Theatre Cleantech

## 7.6 Summary of Benefits

The Scheme is a defined benefit salary scheme which guarantees to provide benefits which are a specified fraction of a Scheme member's "final-pay". Benefits are not affected by variations in investment performance.

## 7.7 Additional Voluntary Contributions AVC

Scheme members may also elect to pay additional contributions to be invested in an Additional Voluntary Contribution Scheme. The London Borough of Barking and Dagenham have chosen Prudential as its AVC provider.

## 7.8 Dispute Resolution

The LGPS is required by statute to plan for the formal resolution of disagreements between, on the one hand, the managers of the Scheme and on the other, active deferred and pensioner members or their representatives. The dispute resolution's official name is the "internal dispute resolution procedure" (IDRP). The following gives an overview of the IDRP process:

### First stage

If a member needs to make a formal complaint, they should make it:

- in writing; and
- normally within 6 months of the day when they were told of the decision they want to complain about.

The complaint will be considered carefully by a person nominated by the body that took the decision against which the member wishes to complain (the “nominated person”). That person is required to give the member their decision in writing.

If the nominated person's decision is contrary to the decision the member complained about, the employer or administering authority that made that original decision will now have to deal with the case in accordance with the nominated person's decision.

If the decision the member complained about concerned the exercise of discretion by the employer or administering authority, and the nominated person decides that the employer or administering authority should reconsider how they exercised their discretion, they will be required to reconsider their original decision.

### Second Stage

The member can ask the pension scheme administering authority to take a fresh look at the complaint in any of the following circumstances:

- the member is not satisfied with the nominated person's first-stage decision;
- the member has not received a decision or an interim letter from the nominated person, and it is 3 months since the member lodged their complaint; and
- it is one month after the date by which the nominated person told the member (in an interim letter) that they would give them a decision, and they have still not received that decision.

This review would be undertaken by a person not involved in the first stage decision.

The member will need to send the appropriate administering authority their complaint in writing. The time limits for making the complaint are set out within the IDRPs Employee's Guide (see link below). The administering authority will consider the complaint and give their decision in writing.

If the member is still unhappy following the administering authority's second stage decision, they can take the case to the Pensions Ombudsman provided they do so within 3 years from the date of the original decision (or lack of a decision) about which the member is complaining.

If a member is unhappy with a decision made please ask them to contact this office in the first instance as many issues can be resolved without the need to resort to the lengthy process of IDRPs. It could simply be that there is a misunderstanding of the Regulations and that the decision made is in fact correct and this can be explained to the member accordingly.

## **8. Risk Management**

## 8.1 Summary

The Council has incorporated key Fund risks in its corporate risk register. In addition, the Fund has an active risk management programme in place and has adopted the recommendations of the 2008 Myners principles. The measures that the Council has in place to control key risks are summarised below under the following headings:

- Financial;
- Demographic;
- Longevity;
- Regulatory and
- Governance.

A copy of the Council's risk register is included as appendix 7 of this report. Further details on risk can be found in the Fund's accounts on pages 44 to 45.

## 8.2 Management of Third Party Risks

The Pension Panel reviews annually all SSAE 16 and AAF 01/06 reports for its investment managers and custodian. SSAE 16 and AAF 01/06 reports are Assurance reports on internal controls of service organisations which can identify issues within the way a fund manager is run. Where there are concerns the Panel contacts the fund manager for steps it has taken to mitigate risks or issues raised by third party auditors.

All employers are regularly informed of their statutory duty to ensure that contributions are received by the Administering Authority on time.

## 8.3 Financial Performance

The Fund prepares a three-year plan of its funding called the Funding Strategy Statement (FSS). The purpose of the Funding Strategy Statement 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 requirement to maintain as nearly consistent employer contributions as possible; and
- To take a prudent longer-term view of funding those liabilities.

Admitted and Scheduled bodies are circulated with valuation results for comments and agreement on contribution rates. Their responses are considered in preparing the FSS for the Fund. The FSS is included as appendix 2 of this report.

## **9. Actuarial Report on Fund Valuation**

### **9.1 Actuarial Valuation and Solvency of the Fund**

Legislation requires the Fund to have an actuarial valuation undertaken every three years. The purpose of the valuation is for an independent assessment to be made of the financial health of the Fund and its ability to meet its obligations to pay pensions in the future.

The aim of the report is to recommend employer contribution levels to ensure that assets in the fund cover liabilities over the long term. The key features of the review were that:

- the funding target remains unchanged to achieve a funding level of at least 100% over a specific period;
- future levels of price inflation are based on the Consumer Price Index (CPI) (previously Retail Price Index) and future levels of real pay increases are assumed to be 2.0% per annum in excess of CPI;
- the discount rate is based on Asset Outperformance target of 1.6% above the yield of fixed interest and index linked government Bonds;
- the market value of the pension scheme's assets at 31 March 2013 was £636m; and
- assumptions made were prudent and based on available evidence.

### **9.2 Actuarial Statement**

The Actuarial Statement is included as appendix 7 of this report and has been produced by the Fund's Actuary, Hymans Robertson LLP.

### **9.3 Monitoring of Fund's Funding Position**

The Administering Authority monitors the funding position between valuation dates, allowing for actual investment returns and changes in financial assumptions (such as liability discount rate) caused by changes in market conditions. This report is prepared by the Fund's actuary Hymans Robertson.

In addition, specific inter-valuation monitoring for individual employers may be undertaken if requested by the employer. The Council is the largest employer in the Fund and undertakes this inter-valuation monitoring annually.

## **10. Independent auditor's report to the members of London Borough of Barking and Dagenham on the pension fund financial statements published with the pension fund annual report**

We have examined the pension fund financial statements for the year ended 31 March 2017 on pages 27 to 51.

### **Respective responsibilities of the Chief Operating Officer and the auditor**

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities the Chief Operating Officer is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report with the pension fund financial statements included in the annual published statement of accounts of London Borough of Barking and Dagenham, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

In addition, we read the information given in the Pension Fund Annual Report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

### **Opinion**

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of London Borough of Barking and Dagenham for the year ended 31 March 2017 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

### **Matters on which we are required to report by exception**

The Code of Audit Practice for Local Government Bodies 2010 requires us to report to you if:

- the information given in the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters

for and on behalf of KPMG LLP, Appointed Auditor

Chartered Accountants  
KPMG

15 Canada Square  
Canary Wharf  
London  
E14 SGL

Xx xxx xxxx

## **11. Pension Fund Three Year Budget (2017/18 to 2019/20)**

11.1 At the March 2014 Pension Panel one of the recommendations in the governance review provided by Aon Hewitt was for a Fund budget to be included in the Business Plan.

11.2 At the July 2014 Members agreed a budget for the next three years, which is included in the Business Plan and is reported on at each quarterly Pension Panel as part of the Business Plan Update.

11.3 The proposed budget is provided in table 11.

11.4 Several assumptions have been used to calculate the budget, including:

- Council Employee, Employer and Pension Strain contributions will decrease in 2017/18 onwards due to a reduction in staff numbers. The assumed reduction is approximately 8% for each year.
- Scheduled body contributions are forecast to increase steadily as similar reductions in staff number are not expected and due to the assumption that the number of academies may increase.
- Pension payments will increase at an average of 3% to consider annual CPI increases and the increase in the number of pensioners.
- Administration expenses are expected to reduce as efficiencies are found in increasing in-house expertise and in innovative ways of working.
- A return of 4.1% has been assumed for net return for the Fund for each year. Liabilities are forecast using the 31 December 2013 valuation update total as the base, with annual increase in liabilities as the Fund grows negated by the increase in discount rate as the discount rates increases following an increase in longer term bond yields.
- The discount rate of 5% has been used for 20 2015/16 to 2016/17. It is likely that the actual rate will be higher, which in turn will improve the Fund's funding level, subject to asset values remaining strong.

11.5 Overall the budget indicates that, given steady returns, continued increases in longer dated interest rates and continued higher than average contribution rates, the funding level could increase over the 3 years to 81.7%. With continued low wage increases, and lower than expected inflation there are sufficient positive economic factors that will benefit the Fund and make this possibility more likely.

**Table 11: Pension Fund Budget 1 April 2017 to 31 March 2020**

	<b>2017/18 Budget</b>	<b>2018/19 Budget</b>	<b>2019/20 Budget</b>
<b><u>Contributions</u></b>			
<b>Employee Contributions</b>			
Council	6,000	5,500	5,000
Admitted bodies	800	1,200	1,500
Scheduled bodies	2,400	2,500	2,800
<b>Employer Contributions</b>			
Council	22,500	20,000	18,200
Admitted bodies	2,000	3,000	3,750
Scheduled bodies	8,900	9,300	10,500
<b>Pension Strain</b>	1,000	1,000	1,000
<b>Transfers In</b>	2,500	2,500	2,500
<b><u>Total Member Income</u></b>	<b>46,100</b>	<b>45,000</b>	<b>45,250</b>
<b><u>Expenditure</u></b>			
<b>Pensions</b>	- 30,000	- 31,000	- 32,000
<b>Lump Sums and Death Grants</b>	- 6,000	- 6,000	- 6,000
<b>Payments to and on account of leavers</b>	- 3,500	- 3,500	- 3,500
<b>Administrative expenses</b>	- 550	- 550	- 500
<b>Total Expenditure on members</b>	- 40,050	- 41,050	- 42,000
<b><u>Net additions for dealings with members</u></b>	<b>6,050</b>	<b>3,950</b>	<b>3,250</b>
<b><u>Returns on Investments</u></b>			
<b>Investment Income</b>	6,000	7,000	7,500
<b>Profit (losses)</b>	35,000	35,000	35,000
<b>Investment management expenses</b>	- 3,300	- 3,100	- 3,000
<b>Net returns on investments</b>	<b>37,700</b>	<b>38,900</b>	<b>39,500</b>
<b>Net increase (decrease) in the net assets</b>	<b>43,750</b>	<b>42,850</b>	<b>42,750</b>
<b>Asset Values</b>	<b>938,750</b>	<b>981,600</b>	<b>1,024,350</b>

## **Appendix 1: Fund Accounts 2016/17**

### **Summary of Fund Accounts 2016/17**

The key changes in the Fund's income and expenditure are summarised below:

- Overall 2016/17 was an exceptional year for the Fund with a positive investment return, net of fund manager fees and custodian costs, of 18.0%, 1% higher than its benchmark of 17.0%. Taking net pension contributions into account, the Fund increased in size by 18.6%. Over three years the Fund has returned an annualised return of 10.7%, which 0.2% below the Fund's benchmark return of 10.9%.
- The Fund increased in value by £144.2m from £772.3m as at 31 March 2016 to £916.8m as at 31 March 2017.
- Contributions into the Fund increased by £0.5m (1.2%) as a result of increase in employer contribution rate from the Council, which increased from 23.5% to 24.5% and an increase in the number of members. The member increase was predominantly within school support staff.
- Benefit payments increased by £0.9m (3.1%) as a result of an increase in the number of pensioners.
- Audit fees remained at £21k for the year

### **Explanatory Foreword**

The primary function of the Council in respect of these accounts is as an Administering Body to the Fund.

The 2016/17 Fund Accounts consist of:

- Fund Account;
- Returns from Investments;
- Net Assets Statement; and
- Notes to the Accounts.

### **Publication**

This report will be made available through the Council's website, the Fund's website ([www.lbbdpensionfund.org](http://www.lbbdpensionfund.org)) and to all employers and members participating in the Fund as well as Council Members on request as appropriate. A copy of this document and all other documents referred to in this report can be obtained upon receipt of a written request to the Treasury and Pensions Manager.



# **Draft Pension Fund Accounts**

**for the year ended**

**31 March 2017**

## London Borough of Barking and Dagenham Pension Fund Account

	Note	2015/16 £000	2016/17 £000
<b>Dealings with members, employers and others directly involved in the scheme</b>			
Contributions	7	43,916	45,556
Transfers in from other pension funds	8	2,523	4,293
		46,439	49,849
Benefits	9	(35,053)	(39,929)
Payments to and on account of leavers	10	(3,553)	(3,030)
Administrative expenses	11	(531)	(780)
		(39,137)	(43,739)
<b>Net additions for dealings with members</b>		7,302	6,110
<b>Returns on Investments</b>			
Investment Income	12	5,097	6,039
Taxes on income		-	-
Profit (losses) on disposal of investments and changes in the market value of investments	14	5,364	135,756
Investment management expenses	13	(3,295)	(3,689)
<b>Net returns on investments</b>		7,166	138,106
<b>Net increase (decrease) in net assets available for benefits during the year</b>		14,468	144,216

### Net Assets Statement as at 31 March 2017

	Note	2015/16 £000	2016/17 £000
<b>Investment Assets</b>	15	771,785	915,817
<b>Current Assets</b>	16	1,195	1,290
<b>Current Liabilities</b>	16	(683)	(594)
<b>Net assets of the scheme available to fund benefits at the period end</b>		772,297	916,513

The accounts summarise the transactions and net assets of the Fund. They do not take account of liabilities to pay pensions and other benefits in the future.

**Notes to the Pension Fund Accounts for the year ended  
31 March 2017**

**1. Introduction**

The Barking and Dagenham Pension Fund (“the Fund”) is part of the Local Government Pension Scheme (“LGPS”) and is administered by the London Borough of Barking and Dagenham (“LBBD”). The Council is the reporting entity for this Fund.

The Fund is operated as a funded, defined benefit scheme which provides for the payment of benefits to former employees of LBBD and those bodies admitted to the Fund, referred to as “members”. The benefits include not only retirement pensions, but also widow’s pensions, death grants and lump sum payments in certain circumstances. The Fund is financed by contributions from members, employers and from interest and dividends on the Fund’s investments.

The objective of the Fund’s financial statements is to provide information about the financial position, performance and financial adaptability of the Fund and show the results of the Council’s stewardship in managing the resources entrusted to it and for the assets at the period end.

The Fund is overseen by the Fund’s Pension Panel, which is a Committee of LBBD.

Overall 2016/17 was an exceptional year for the Fund with a positive investment return, net of fund manager fees and custodian costs, of 18.0%, 1% higher than its benchmark of 17.0%. Taking net pension contributions into account, the Fund increased in size by 18.7%. Over three years the Fund has returned an annualised return of 10.7%, which 0.2% below the Fund’s benchmark return of 10.9%.

During the year Greatfields and Eastbury were admitted to the Fund as Academies. Two new employers, Schools Offices Services Limited and Cleantech, joined the scheme as admitted bodies. One admitted body, CGL left the Fund during the financial year. The total number of active and closed employers within the Fund was 30 as at year end.

**2. Format of the Pension Fund Statement of Accounts**

The day to day administration of the Fund and the operation of the management arrangements and investment portfolio are delegated to the Chief Operating Officer.

The following description of the Fund is a summary only. For more details, reference should be made to the Fund’s Annual Report for 2016/17, which can be obtained from the Council’s website: <http://www.lbbdpensionfund.org>

The statutory powers that underpin the scheme are the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) regulations, which can be found at: [www.legislation.gov.uk](http://www.legislation.gov.uk).

**a) Membership**

All local government employees (except casual employees and teachers) are automatically enrolled into the Scheme. However, membership of the LGPS is voluntary and employees are free to choose whether to opt out, remain in the Scheme or make their own personal arrangements outside the Scheme. Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.

- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

	2015/16	2016/17
<b>Number of Employers with active members</b>	23	30
<b>Number of Employees in scheme</b>		
<b>London Borough of Barking and Dagenham</b>		
Active members	4,804	5,090
Pensioners	4,041	4,314
Deferred pensioners	4,173	4,384
Undecided and other members	571	398
	<u>13,589</u>	<u>14,186</u>
<b>Admitted and Scheduled Bodies</b>		
Active members	1,354	1,406
Pensioners	988	1,151
Deferred pensioners	1,282	1,271
Undecided and other members	67	69
	<u>3,691</u>	<u>3,897</u>

A list of the Fund's scheduled and admitted employers are provided below:

Scheduled Bodies	Admitted Bodies
LBBB	Abbeyfield Barking Society
Barking College	Age UK
Dorothy Barley Academy	B&D Citizen's Advice Bureau
Eastbury Academy	Cleantech
Goresbrook Free School	Council for Voluntary Service
Greatfields Free School	CGL
Magistrates Court	Disablement Assoc. of B&D
Riverside Bridge	East London E-Learning
Riverside Free School	Elevate East London LLP
Riverside School	Laing O'Rourke
Sydney Russell	London Riverside
Thames View Infants Academy	May Gurney
Thames View Junior Academy	RM Education
University of East London	Schools Offices Services Ltd
Warren Academy	The Broadway Theatre

## b) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service as summarised below:

**Service pre-1 April 2008**

**Service post 31 March 2008**

<b>Pension:</b>	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
<b>Lump sum:</b>	Automatic lump sum of 3 x salary. In addition part of annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

The benefits payable in respect of service from 1<sup>st</sup> April 2014 are based on career average devalued earnings and the number of years of eligible service. The accrual rate is 1/49 and the benefits are index-linked to keep pace with inflation. From 1 April 2011, the method of indexation changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI).

### 3. Basis of preparation

The accounts summarise the transactions and net assets for the Fund's transactions for the 2016/17 financial year and its position as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom 2016/17.

The financial statements do not reflect any liabilities to pay pension or other benefits occurring after 31 March 2017. Such items are reported separately in the Actuary's Report provided in Note 19 to the Fund's accounts.

The accounts have been prepared on an accruals basis (that is income and expenditure are recognised as earned or incurred, not as received and paid) except in the case of transfer values which are included in the accounts on a cash basis.

#### 3.1 Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Transfer Values to/from other funds, for individuals, are included in the accounts based on the actual amounts received and paid in the year.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

#### 3.2 Investment income

- i) Interest income - Interest income is recognised in the Fund account as it accrues. Interest from financial assets that are not carried at fair value through profit and loss, i.e. loans and receivables, are calculated using the effective interest basis.
- ii) Dividend income - Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

- iii) Movement in the net market value of investments - Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/loss during the year.

### **3.3 Investments** in the Net Assets Statement at market value on the following basis:

- i) Quoted investments are valued at bid price at the close of business on 31 March 2017;
- ii) Unquoted investments are based on market value by the fund managers at year end in accordance with accepted guidelines;
- iii) Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax;
- iv) Investments held in foreign currencies have been valued in sterling at the closing rate ruling on 31 March 2017. All foreign currency transactions are translated into sterling at exchange rates ruling at the closing rate of exchange; and
- v) Limited partnerships are valued at fair value on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

### **3.4 Administration**

All administration expenses are accounted for on an accrual basis. Staff costs associated with the Fund are charged to the Fund, with management, accommodation and other overheads apportioned in accordance with LBBD's policy.

### **3.5 Taxation**

The Fund is a registered public sector service scheme under section 1(1) of schedule 36 of the Finance act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceed of investments sold.

Taxation agreements exist between Britain and other countries whereby all or a proportion of the tax deducted locally from investment income may be reclaimed. Non-recoverable deductions are classified as withholding tax.

Value Added Tax is recoverable on all Fund activities by the administering authority.

### **3.6 Investment management expenses**

All investment management expenses are accounted for on an accrual basis.

External manager fees, including custodian fees, are agreed in the respective mandates governing their appointments, which are broadly based on the market value of the Fund's investments under their management. Therefore, investment management fees increase / decrease as the value of these investments change.

The Fund does not currently include a performance related fees element in any of their contracts. Where it has not been possible to confirm the investment management fee owed by the balance sheet date, an estimate based on the market value has been used.

Most the Fund's holdings are invested in pooled funds which include investment management expenses, including actuarial, trading costs and fund manager fees, within the pricing mechanism. These are disclosed in Note 13.

### **3.7 Foreign currency transactions**

Dividends, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts.

### **3.8 Derivatives**

The Fund has a limited use of derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the value of derivative contracts are included in change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The Fund has no direct holdings in exchange traded or over-the-counter options, although some of these trading tools are used within a number of the Fund's pooled investments.

### **3.9 Cash and cash equivalents**

Cash comprises cash in-hand and on-demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

### **3.10 Present Value of Liabilities**

These accruals do not include the Fund's liabilities to pay pensions and other benefits, in the future, to all the present contributors to the Fund. These liabilities are taken account of in the periodic actuarial valuations of the Fund and are reflected in the levels of employers' contributions determined at these valuations.

### **3.11 Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19).

### **3.12 Contingent assets and liabilities**

Contingent assets and liabilities are not recognised in the Fund's Balance Sheet but are disclosed as a note to the accounts. They arise as a result of past events but are only confirmed by the occurrence of one or more uncertain future events which are not entirely within the Fund's control.

Contingent liabilities arise from a present obligation arising from past events but only where it is not probable that a transfer of economic benefits will be required to settle the obligation or where the amount of the obligation cannot be measured with sufficient reliability.

#### 4 Critical Judgements in applying accounting policies

In applying the accounting policies set out in Note 2, the Fund has had to make certain judgements about complex transactions or those involving uncertainty about future events.

A critical judgement made within the accounts is for the Pension Fund liability, which is calculated every three years by the appointed Actuary. The methodology used is in line with accepted guidelines. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

#### 5 Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into consideration historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. There were no items in the Statement of Accounts 2015/16 for which there is a significant risk of material adjustment in the forthcoming financial years.

#### 6 Additional Voluntary Contributions (AVC)

Additional Voluntary Contributions (AVCs) administered by the Prudential, made by LBBB employees during the year amounted to **£356k** (2015/16 £470k). In accordance with Regulation 4(2) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid and the assets of these investments are not included in the Pension Fund Accounts.

AVCs were valued by Prudential at a market value of **£4.6m** (2015/16 £4.8m).

#### 7 Contributions

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007, ranging from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017. Employee contributions are matched by employer contributions, which are set based on triennial actuarial funding valuations. Currently employer contribution rates range from 14.0% to 33.1%.

Pension strain contributions are accounted for in the period in which the liability arises. Any amounts due in year but unpaid will be classed as a current financial asset.

The Council has adopted a mechanism to stabilise the contribution rates. This was agreed following the actuary, Hymans Robertson, completing a stochastic modelling of the long-term funding position. Eligibility for stabilisation is dependent on reasonable consistency in an employer's membership profile. The primary contribution rate used during the financial year ending 31 March 2017 was 24.5%. In 2016/17 the Fund underwent a triennial valuation and as a result the year ending 31 March 2017 LBBB contribution rate will be 23.5%.

Contributions shown in the revenue statement may be categorised as follows:

<b>Contributions</b>	<b>2015/16</b>	<b>2016/17</b>
	<b>£000</b>	<b>£000</b>

**Members normal contributions**

Council	6,672	<b>6,667</b>
Admitted bodies	399	<b>310</b>
Scheduled bodies	2,297	<b>2,386</b>
<b>Total contributions from members</b>	<u>9,368</u>	<u><b>9,363</b></u>

**Employers normal contributions**

Council	24,467	<b>24,622</b>
Admitted bodies	1,009	<b>982</b>
Scheduled bodies	8,446	<b>8,961</b>
Additional retirement contribution	-	
Capitalised Redundancy costs	626	<b>1,628</b>
<b>Total contributions from employers</b>	<u>34,548</u>	<u><b>36,193</b></u>

<b>Total Contributions</b>	<u>43,916</u>	<u><b>45,556</b></u>
----------------------------	---------------	----------------------

**8 Transfers in from other pension funds**

	2015/16 £000	2016/17 £000
<b>Individual Transfers</b>	2,523	<b>3,992</b>
<b>Group Transfers*</b>	-	<b>301</b>
	<u>2,523</u>	<u><b>4,293</b></u>

\*Group transfer of Elutec from the London Borough of Havering Pension Fund

**9 Benefits**

Benefits payable and refunds of contributions have been brought into the accounts based on all valid claims approved during the year.

	2015/16				2016/17			
	Council £000	Admitted Bodies £000	Scheduled Bodies £000	Total £000	Council £000	Admitted Bodies £000	Scheduled Bodies £000	Total £000
<b>Pensions</b>	23,822	545	4,535	28,902	<b>25,040</b>	<b>347</b>	<b>4,485</b>	<b>29,872</b>
<b>Lump sums</b>	4,120	339	630	5,089	<b>7,650</b>	<b>235</b>	<b>901</b>	<b>8,786</b>
<b>Death grants</b>	942	-	118	1,060	<b>860</b>	<b>19</b>	<b>392</b>	<b>1,271</b>
<b>Interest</b>	2	-	-	2	-	-	-	-
	<u>28,886</u>	<u>884</u>	<u>5,283</u>	<u>35,053</u>	<u><b>33,550</b></u>	<u><b>601</b></u>	<u><b>5,778</b></u>	<u><b>39,929</b></u>

**10 Payments to and on account of leavers**

	2015/16 £000	2016/17 £000
Individual Transfers	3,407	<b>2,858</b>
Refunds	146	<b>172</b>
	<u>3,553</u>	<u><b>3,030</b></u>

**11 Administrative expenses**

	2015/16 £000	2016/17 £000
--	-----------------	-----------------

Administration and Processing	452	526
Audit Fee	21	21
Actuarial Fees	36	78
Legal and Other Professional Fees	22	37
ICT Costs	-	118
	<u>531</u>	<u>780</u>

## 12 Investment Income

	2015/16	2016/17
	£000	£000
Fixed Interest Securities	598	636
Equity Dividends	3,598	3,092
Pooled Property Income	2,072	2,153
Interest - Manager's Cash	2	2
Interest - LBBB balance	49	95
Currency Gain/(Loss)	(1,297)	-
Other Income	75	61
	<u>5,097</u>	<u>6,039</u>

## 13 Investment management expenses

	2015/16	2016/17
	£000	£000
Management Fees	3,165	3,084
Custody Fees	22	45
Interest Costs	108	560
	<u>3,295</u>	<u>3,689</u>

## 14 Investments

The movement in the opening and closing value of investments during the year, together with related direct transaction costs were as follows:

	Value 31/03/2016 £000	Purchases £000	Sales £000	Change in Fair Value £000	Cash Movement £000	Value 31/03/2017 £000
Pooled Unit Trusts	453,627	360,858	(229,784)	130,906	-	715,607
Property Unit Trusts	56,246	5,000	(570)	532	-	61,208
Pooled Absolute Return	130,335	61	(129,779)	(617)	-	0
Pooled Alternatives	52,496	28,904	(34,655)	4,540	-	51,285
Infrastructure	60,458	15,061	(4,635)	4,877	-	75,761
Other Investments	5,878	0	(3,276)	5	-	2,607
<b>Derivative Contracts</b>						
Futures	(314)	184,137	(179,151)	(4,248)	-	424
<b>Cash Deposits</b>						
Custodian	3,516	-	-	(239)	(349)	2,928
In-House	8,899	-	-	-	(3,611)	5,288
<b>Total</b>	<u>771,141</u>	<u>594,021</u>	<u>(581,850)</u>	<u>135,756</u>	<u>(3,960)</u>	<u>915,108</u>

	Value 31/03/2015 £000	Purchases £000	Sales £000	Change in Fair Value £000	Cash Movement £000	Value 31/03/2016 £000
Pooled Unit Trusts	458,710	926	-	(6,009)	-	453,627
Property Unit Trusts	53,232	-	-	3,014	-	56,246
Pooled Absolute Return	128,309	361	-	1,665	-	130,335
Pooled Alternatives	52,357	10,828	(12,098)	1,409	-	52,496
Infrastructure	32,602	35,055	(12,229)	5,030	-	60,458
Other Investments	7,152	150	(1,428)	4	-	5,878
<b>Derivative Contracts</b>						
Futures	(565)			251	-	(314)
<b>Cash Deposits</b>						
Custodian	1,099	-	-	-	2,417	3,516
In-House	23,352	-	-	-	(14,453)	8,899
<b>Total</b>	<b>756,248</b>	<b>47,320</b>	<b>(25,755)</b>	<b>5,364</b>	<b>(12,036)</b>	<b>771,141</b>

The change in fair value of investments during the year comprises all increases and decreases in the value of investments held at any time during the year, including profits and losses realised on sales of investment and changes in the sterling value of assets caused by changes in exchange rates. In the case of pooled investment vehicles changes in market value also includes income, net of withholding tax, which is reinvested in the Fund.

The cost of purchases and the sales proceeds are inclusive of transaction costs, such as broker fees and taxes. In addition to transaction costs, indirect costs are incurred through the bid offer spread on investments within pooled investment vehicles. The amount of indirect cost is not separately provided to the Fund. The Fund employs specialist investment managers with mandates corresponding to the principle asset classes. The managers as at 31 March 2017 are highlighted below:

Investment Manager	Mandate	Investment Area
Aberdeen Asset Management	Active	Diversified Alternatives
BNY Standish	Active	Global Credit
London CIV: Baillie Gifford	Active	Global Equity (Pooled)
London CIV: Pyrford	Active	Absolute Return
London CIV: Newton	Active	Absolute Return
London CIV: Other	Passive	None
BlackRock	Active	Property Investments (UK)
Hermes	Active	Infrastructure (LLP)
Kempen	Active	Global Equity (Pooled)
Prudential/M&G	Active	Alternatives - UK Companies Financing
RREEF	Active	Property Investments (UK)
Schroders	Active	Property Investments (UK Fund of Funds)
UBS	Passive	Global Equity (Pooled)
UBS	Passive	All Share Fixed Income (Pooled)

The value of the Fund, by manager, as at 31 March 2017 was as follows:

Fund by Investment Manager	2015/16 £000	%	2016/17 £000	%
----------------------------	-----------------	---	-----------------	---

Aberdeen Asset Management	52,182	6.8	51,710	5.7
Baillie Gifford	122,868	15.9	-	0.0
BlackRock	36,685	4.8	36,701	4.0
Hermes	60,459	7.8	75,762	8.3
Kempfen	114,590	14.9	151,211	16.5
Newton	54,765	7.1	-	0.0
Other Cash Balances	12,416	1.6	8,217	0.9
Prudential/M&G	5,728	0.7	2,458	0.3
Pyrford	75,570	9.8	-	0.0
RREEF	2,229	0.3	1,846	0.2
Schroders	17,332	2.2	22,660	2.5
Standish	62,076	8.0	65,486	7.2
UBS Passive Bonds	33,423	4.3	35,818	3.9
UBS Passive Equity	120,668	15.6	159,968	17.5
London CIV	150	0.0	150	0.0
London CIV - Baillie Gifford	-	-	164,629	18.0
London CIV - Pyrford	-	-	82,308	9.0
London CIV - Newton	-	-	56,184	6.1
	<u>771,141</u>	<u>100.0</u>	<u>915,108</u>	<u>100.0</u>

## 15 Securities

	2015/16 £000's	2016/17 £000's
<b>Investment Assets</b>		
<b>Pooled funds - UK</b>		
UK fixed Income Unit Trust	33,423	35,818
UK Equity Unit Trust	243,686	324,746
UK Absolute Return	54,765	138,492
UK Property Unit Trust	19,561	24,506
UK Unit Trust	5,728	2,458
<b>Pooled funds - Overseas</b>		
Overseas Fixed Income Unit Trust	62,076	65,486
Overseas Absolute Return	75,570	-
Overseas Equity Unit Trust	114,589	151,211
Overseas Property Unit Trust	36,685	36,701
Other Investment - Infrastructure	60,459	75,762
Other Investment - Private Equity	6,713	10,956
Other Investment - Hedge Funds	45,784	40,331
Other Investment – Tax Recoverable	645	709
<b>Cash</b>	12,415	8,217
<b>Futures</b>	(314)	424
<b>Total Investment Assets</b>	<u>771,785</u>	<u>915,817</u>
<b>Current Assets: Debtors</b>	1,195	1,290
<b>Current Liabilities: Creditors</b>	(683)	(594)
<b>Total Net Assets</b>	<u>772,297</u>	<u>916,513</u>

## 16 Debtors and Creditors

The following amounts were debtors or creditors for the Fund at 31 March 2017:

	2015/16 £000	2016/17 £000
<b>Debtors</b>		
<b>Other Investment Balances</b>		
Tax recoverable	645	709
<b>Current Assets</b>		
Other local authorities (LBBB)	1,084	908
Other entities and individuals	111	382
Total Current Assets	1,195	1,290
<b>Total Debtors</b>	1,840	1,998
<b>Current Liabilities</b>		
Other local authorities (LBBB)	94	393
Other entities and individuals	589	202
<b>Total Creditors</b>	683	594

## 17 Cash

The cash balance held at 31 March 2017 is made up as follows:

<b>Cash balances held by Investment Managers</b>	2015/16 £000	2016/17 £000
Aberdeen Asset Management	583	1,433
Prudential / M&G	1,719	1,071
Schroders	400	177
BlackRock	702	228
Other balances	112	20
In-house Cash	8,899	5,288
<b>Total Cash</b>	12,416	8,217

## 18 Investment Strategy Statement

An Investment Strategy Statement was agreed by the Council's Investment Panel on 15 March 2017 and is updated periodically to reflect changes made in Investment Management arrangements. The nature and extent of risk arising from financial instruments and how the Fund manages those risks is included in the Investment Strategy Statement. Copies can be obtained from the Council's Pension website: <http://www.lbbdpensionfund.org>

## 19 Actuarial position

### Actuarial assumptions

The 2016 triennial review of the Fund took place as at 31 March 2016 and the salient features of that review were as follows:

- The funding target is to achieve a funding level of at least 100% over a specific period;
- Deficit recovery period reduced from 20 years in 2013 to 17 years in 2016;
- The key financial assumptions adopted at this valuation are:
  - Future levels of price inflation are based on the Consumer Price Index (CPI);

- Funding discount rate based on an Asset Outperformance target of 1.7% p.a. above the yield on fixed interest (nominal) and index-linked (real) Government bonds;
- The resulting discount rate of 4.1% (4.7% as at 31 March 2013).
- Market value of the scheme's assets at the date of the valuation were £772 million;
- The past service liabilities at the rate of the valuation were £1,001 Million;
- The resulting funding level was 77.2% (70.6% as at 31 March 2013); and
- The use of an appropriate asset outperformance assumption is based on available evidence and is a measure of the degree of prudence assumed in the funding strategy.

The valuation has made assumptions about member longevity and has used the following average future life expectancies for pensioners aged 65 at the valuation date

<b>Longevity Assumptions</b>	2013	2013	2016	2016
at 31 March	Male	Female	Male	Female
Average future life expectancy (in years for a pensioner)	21.8	24.0	<b>22.0</b>	<b>24.7</b>
Average future life expectancy (in years) at age 65 for non-pensioner assumed to be aged 45 at the valuation date	24.1	26.5	<b>24.0</b>	<b>26.4</b>

The key financial assumptions adopted by the actuary for the valuation of members' benefits at the 2016 valuation are set out below:

<b>Financial assumptions</b>	<b>31 March 2013</b>	<b>31 March 2016</b>
<b>Discount rate</b>		
Return on long-dated gilts	3.0%	2.2%
Asset Outperformance Assumption	1.7%*	1.9%*
<b>Discount rate</b>	<b>4.7%</b>	<b>4.1%</b>
<b>Benefit increases</b>		
Retail Prices Inflation (RPI)	3.3%	3.2%
Assumed RPI/CPI gap	(0.8%)*	(1.0%)*
<b>Benefit increase assumption (CPI)</b>	<b>2.5%</b>	<b>2.1%</b>
<b>Salary increases</b>		
Retail Prices Inflation (RPI)	3.3%	3.2%
Increases in excess of RPI	0.5%*	(0.6%)*
<b>Salary increase assumption</b>	<b>3.8%</b>	<b>2.6%</b>

\*Adjustments are applied arithmetically in 2013 and geometrically in 2016

### Funding level and position

The table below shows the detailed funding level for the 2016 valuation:

<b>Employer contribution rates</b>	As at 31 March	
	2013	2016
Primary Rate (net Employer Future Service Cost)	18.7%	<b>18.2%</b>
Secondary Rate (Past Service Adjustment – 17 year spread)	12.7%	<b>6.8%</b>
<b>Total Contribution Rate</b>	31.4%	<b>25.0%</b>

The Primary rate above includes an allowance for administration expenses of 0.4% of pay. The employee average contribution rate is 6.7% of pay. The table below shows the funding position as at 31 March 2016.

<b>Past Service Funding Position at 31 March</b>	As at 31	As at 31
	March 2013	March 2016
<b>Past Service Liabilities</b>	£m	£m
Employees	(316)	<b>(324)</b>

Deferred Pensioners	(180)	<b>(221)</b>
Pensioners	(406)	<b>(456)</b>
	(902)	<b>(1,001)</b>
Market Value of Assets	636	<b>772</b>
<b>Funding Deficit</b>	<b>(266)</b>	<b>(228)</b>
<b>Funding Level</b>	<b>70.6%</b>	<b>77.2%</b>
<b>Present value of funded obligation</b>		

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 Employee Benefits (IAS 19) assumptions, is estimated to be **£1,445m** as at 31 March 2017 (31 March 2016: £1,204m). This figure is used for statutory accounting purposes by the Pension Fund and complies with the requirements of IAS 26 Accounting and Reporting by Retirement Benefit Plans. The assumptions underlying the figure are as per the IAS 19 assumptions above.

The figure is prepared for the purposes of IAS 26 and has no validity in other circumstances. It is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund, which is carried out on a triennial basis.

### Total contribution rate

The table below shows the minimum total contribution rates, expressed as a percentage of pensionable pay, which was applied to the 2016/17 accounting period:

<b>Scheduled Bodies</b>	<b>Rate %</b>	<b>Admitted Bodies</b>	<b>Rate %</b>
LBBB	24.5	B&D Citizen's Advice Bureau	33.1
Barking College	27.5	Cleantech	28.1
Dorothy Barely Academy	17.9	Elevate East London LLP	21.3
Elutec	22.4	Laing O'Rourke	14.0
Eastbury Academy	23.6	Schools Offices Services Ltd	24.4
Goresbrook Free School	10.8	The Broadway Theatre	30.6
Greatfields Free School	22.5		
Partnership Learning	26.6		
Riverside Bridge	20.3		
Riverside Free School	15.9		
Riverside School	19.6		
Sydney Russell	25.7		
Thames View Infants Academy	22.3		
Thames View Junior Academy	22.8		
University of East London	28.1		
Warren Academy	23.2		

The financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

## 20 Related parties

The Fund is a related party of the Council as the following transactions are controlled by the Council. Pension administration and investment management costs of **£548.0k** (2015/16: £493.8k) are charged by the Council.

## 21 Contingent liabilities

As at 31 March 2017 there were no contingent liabilities.

## 22 Contingent assets

As at 31 March 2017 the Fund did not hold any contingent assets.

## 23 Holdings

All holdings within the Fund as at 31 March 2017 were in pooled funds or Limited Liability Partnerships (LLP), with no direct holdings over 5% of the net assets of the scheme. As at 31 March 2017 the following pooled funds and LLPs were over 5% of the scheme's net assets:

Security	Market Value as at 31 March 2017 £000	% of Total Fund %
Baillie Gifford	164,629	18.0
UBS	159,968	17.5
Kempen	151,211	16.5
Pyrford	82,308	9.0
Hermes	75,762	8.3
Schroders	65,486	7.2
Newton	56,184	6.1

## 24 Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

### Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. One of the Fund's absolute return mandates, Pyrford, holds a mixture of quoted equities and fixed income that is traded on an active market and have therefore been classified as Level 1.

Listed investments are shown as bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange. The total financial instruments held by the **Fund at Level 1 were £726.4m**

### Level 2

Financial instruments at Level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques use inputs that are based significantly on observable market data. For the Fund these investments includes pooled property holdings, the Fund's absolute return manager Newton, where some of the assets, although liquid, do not readily have a market value. The total financial instruments held by the **Fund at Level 2 were £61.2m**.

### Level 3

Financial instruments at Level 3 are those where at least one input could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund or funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The Fund's infrastructure manager has been classified as level 3 as valuations are based on a variety of assumptions and the assets held do not have a readily identifiable market.

The values of the investment in infrastructure are based on the net asset value provided by the fund manager. Assurances over the valuation are gained from the independent audit of the value. The total financial instruments held by the Fund at **Level 3 were £127.5m.**

## 25 Events after the Reporting Period

None

## 26 Compensation of key management personnel

Compensation of key management personnel, including members of the Pension Panel, the Chief Operating Officer, the Director of Finance, the Group Manager for Treasury and Pensions and the Treasury Manager, charged to the Fund are provided below:

	2015/16 £000	2016/17 £000
Short Term employee benefits	220.2	220.2
<b>Total</b>	<b>220.2</b>	<b>220.2</b>

## 27 Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period. The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

	Fair Value through profit and loss	Loan and receiv- ables 2015/16	Financial liabilities at amortised cost	Designate d as fair value through profit and loss	Loan and receiv- ables 2016/17	Financial liabilities at amortised cost
	£000	£000	£000	£000	£000	£000
<b>Financial assets</b>						
Pooled Fixed Income						
Unit Trusts	95,499	-	-	101,304	-	-
Equities	358,276	-	-	475,957	-	-
Property Unit Trusts	56,246	-	-	61,208	-	-
Cash	-	12,416	-	-	8,217	-
Other investments	249,348	-	-	269,132	-	-
<b>Total Financial Assets</b>	<b>759,369</b>	<b>12,416</b>	<b>-</b>	<b>907,600</b>	<b>8,217</b>	<b>-</b>

### Financial Assets

Debtors	-	1,195	-	781
<b>Financial liabilities</b>				
Creditors	-	-	(683)	(594)
Borrowings	-	-	-	
<b>Total Net Assets</b>	<u>759,369</u>	<u>13,611</u>	<u>(683)</u>	<u>907,600 8,998 (594)</u>

## 28 Nature and extent of risks arising from Financial Instruments

The Fund activities expose it to a variety of financial risks, including:

- **Market risk** – the possibility that financial loss might arise from the Fund's as a result of changes in such measures as interest rates or stock market movements;
- **Interest rate risk** – the risk that interest rates may rise/fall above expectations;
- **Credit risk** - the risk that other parties may fail to pay amounts due;
- **Liquidity risk** – the risk that the Fund may not have funds available to meet its commitments to make payment; and
- **Refinancing risk** – the risk that the Fund might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level.

In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall pension Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Fund's Panel. Risk management policies have been established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

### Risk and risk management

#### Market risk

Market risk is the risk of loss from fluctuations in equity prices, from interest and foreign exchange rates and from credit spreads. The Fund is exposed to market risk predominantly from its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. The Fund manages these risks in two ways:

- Fund's exposure to market risk is monitored by reviewing the Fund's asset allocation; and

- Specific risk exposure is limited by applying maximum exposures to individual investments.

Fund equity managers may use futures contracts and exchange traded option contracts to manage market risk on equity investment.

#### **Other price risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

#### **Other price risk - sensitivity analysis**

Potential price changes are determined based on the observed historical volatility of asset class returns. Riskier assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome depends largely on Funds' asset allocations.

The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix. The Council has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period.

<b>Asset Class</b>	<b>One Year Expected Volatility (%)</b>	<b>Asset Class</b>	<b>One Year Expected Volatility (%)</b>
Global Pooled Inc UK	10.0	Alternatives	3.9
Total Bonds	4.5	Cash	0.0
Property	2.3		

The sum of the monetary impact for each asset class will equal the total Fund impact as no allowance has been made for diversification of the one year standard deviation for a single currency. Had the market price of the Fund investments increased or decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

<b>Asset Type</b>	<b>Value as at 31 March 2017 £000</b>	<b>% Change</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
Pooled Fixed Interest Securities	101,303	4.52	105,882	96,724
Pooled Equity Investments	614,265	10.01	675,753	552,777
Pooled Property	61,208	2.32	62,628	59,788
Infrastructure	75,708	3.92	78,676	72,740
Other Investments	54,878	3.92	57,029	52,727
Cash	8,217	0.01	8,218	8,216
<b>Total</b>	<b>915,579</b>		<b>988,186</b>	<b>842,972</b>

Asset Type	Value as at 31 March 2016 £000	% Change	Value on Increase £000	Value on Decrease £000
Pooled Fixed Interest Securities	95,499	4.52	99,816	91,182
Pooled Equity Investments	358,276	10.01	394,139	322,413
Pooled Property	56,246	2.32	57,551	54,941
Pooled Absolute Return	130,335	3.92	135,444	125,226
Infrastructure	60,459	3.92	62,829	58,089
Other Investments	58,554	3.92	60,849	56,259
Cash	12,416	0.01	12,417	12,415
<b>Total</b>	<b>771,785</b>		<b>823,045</b>	<b>720,525</b>

### Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest movements as at 31 March 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March 2016 £000	As at 31 March 2017 £000
Cash and cash equivalent	12,416	8,217
Fixed interest securities	95,499	101,303
<b>Total change in assets available</b>	<b>107,915</b>	<b>109,520</b>

### Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates in consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The Fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset type	Carrying amount as at 31 March 2017	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and cash equivalent	<b>8,217</b>	82	(82)
Fixed interest securities	<b>101,303</b>	1,013	(1,013)
Total change in assets available	<b>109,520</b>	1,095	(1,095)

Asset type	Carrying amount as at 31 March 2016	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and cash equivalent	12,416	124	(124)
Fixed interest securities	95,499	955	(955)
Total change in assets available	107,915	1,079	(1,079)

### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (sterling). The Fund holds both monetary and non-monetary assets denominated in currencies other than sterling.

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

### Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The Pension Panel Members are aware of the cash flow pressures that are affecting the Fund. These include the potential for a reduction in Fund current members from the significant savings the LBBD needs to make in the coming years and from an increase in pension payments due to increased pensioner numbers and as a result of the pricing index exceeding salary increases. Members receive a quarterly report on the Fund's cash flow and have agreed to utilise distributions from property and infrastructure to fund future investments and to cover any cash flow shortfalls.

Where there is a long-term shortfall in net income into the Fund, investment income will be used to cover the shortfall.

All financial liabilities at 31 March 2017 are due within one year.

### Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of the Fund's financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

### **Credit Risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Fund's internally managed cash is invested by the Council's treasury team. Deposits are not made with banks and financial institutions unless they meet the council's credit criteria. The council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. In addition, the council invests an agreed percentage of its funds in the money markets to provide diversification. Money market funds chosen all have AAA rating from a leading ratings agency.

### **London Borough of Barking and Dagenham**

The Fund is administered by LBBDD. Consequently, there is a strong relationship between the Council and the Fund.

The council incurred administration and investment management costs of **£781.0k** (2015/16 £531.0k) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. For 2016/17 the administration costs included one off costs for move to electronic record keeping and additional costs were incurred for the triennial valuation. The Council is also the single largest employer of members of the Fund and contributed **£24.6m** to the Fund in 2016/17 (2015/16: £24.5m). All monies owing to and due from the Fund were paid in year.

## Appendix 2: Governance Compliance Statement

In accordance with the Local Government Pension Scheme Regulations 2007, Local Government Pension Scheme administering authorities are now required to prepare a Governance Compliance Statement. This statement sets out how administering authorities comply with the best practice guidance as issued by the Secretary of State for Communities and Local Government.

The Governance and Compliance Statement sets out best practice guidance and how the London Borough of Barking and Dagenham (the Council) comply with this guidance.

### Structure

- The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council;
- Representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee;
- Where a secondary committee or Panel has been established, the structure ensures effective communication across both levels;
- Where a secondary committee or Panel has been established, at least one seat on the main Panel is allocated for a member from the secondary committee or Panel.

The Council delegates the management of the Fund to the Pension Panel. The Panel meets on a quarterly basis.

The Panel comprises seven Councillors. The Panel also includes representation from the General and Municipal Boilermakers Union (GMB), from an employee representative and from an employer within the Fund. Admitted bodies are not represented on the Panel, but are consulted on a regular basis. The Panel reviews its terms of reference on a regular basis, so this position will be reviewed in the near future.

The Pension Panel terms of reference are set out below and the Panel is responsible for monitoring all aspects relating to the investment of the assets of the Fund as follows:-

- The Panel will formally review the Fund's asset allocation at least annually, taking account of any changes in the profile of Fund liabilities and any guidance from the Panel regarding tolerance of risk. They will recommend changes in asset allocation to the Executive;
- The Panel will consider and monitor the Quarterly Reports produced by their Investment Manager. In addition to managers' portfolio and performance reporting, the Panel will also receive and review information from the managers on risk analysis, transaction costs, and details of corporate governance (including SRI, voting activity and engagement with management);
- The Panel will formally review annually the manager's mandate, and its adherence to its expected investment process and style. The Panel will ensure that the explicit written mandate of each of the Fund's managers is consistent with the Fund's overall objective and is appropriately defined in terms of performance target, risk parameters and timescale;
- The Panel will consider the need for any changes to the Fund's investment manager arrangements (e.g. replacement, addition, termination) at least annually.
- In the event of a proposed change of managers, the Panel will evaluate the credentials of potential managers;
- The Panel will consider the Fund's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism;
- The Panel will review the Fund's AVC arrangements annually. If they consider a change is appropriate, they will make recommendations to the Executive;

- The Panel will monitor the investment advice from their investment consultant and investment services obtained from other providers (e.g. custodian) at least annually.
- The Panel will be responsible for the appointment and termination of providers;
- The Panel will conduct and conclude the negotiation of formal agreements with managers, custodians and other investment service providers;
- In order to fulfil their roles, the members of the Panel will be provided with appropriate training, initially and on an ongoing basis;
- The Panel is able to take such professional advice as it considers necessary;
- The Panel will keep Minutes and other appropriate records of its proceedings, and circulate these Minutes to the Executive;
- The Panel may also carry out any additional tasks delegated to it by the Borough Council.

The Panel currently consists of:

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

Any changes to the membership of the Panel require the approval of the Executive.

Membership of the Panel consists of a minimum of two Members with a quorum of two Members. All Panel members are expected to have or, for new members, to develop sufficient expertise in investment matters to be able to conduct their Panel responsibilities and to interpret the advice which they receive.

### **Representation:**

All key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:

- Employing authorities;
- Scheme members;
- Independent professional observers; and
- Expert advisors.

Where lay members sit on the main or secondary Panel, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

Admitted bodies are not currently represented at Pension Panel meetings. Professional advice is offered to the Pension Panel by the Fund's investment advisor, Aon Hewitt, and by the Chief Financial Officer for the Council.

The Pension Panel regularly receive training on current issues from professional advisors. Comprehensive training is given to new lay members who join the Panel.

### **Selection and role of lay members**

Panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary Panel. The Pension Panel regularly receive training on current issues from professional advisors. Comprehensive training is given to new lay members who join the Pension Panel.

## **Voting**

The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

Voting rights remain with Councillors, due to the fact that the Council retains legal responsibility as administering authority. The Chairman has the casting vote. In practical terms, decisions on the Fund are usually made by consensus.

## **Training, Facility Time, Expenses**

There is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision making process which applies equally to all members of committees, sub-committees advisory Panels or any other form of secondary forum.

The Council's policy on expenses applies in these instances, and there are no specific policies in place for the Pension Panel. Training is provided to all attendees of the Pension Panel as stated previously.

## **Meetings (frequency, quorum)**

The administering authority's main committee or committees meet at least quarterly.

The administering authority's secondary committee or Panel meets at least twice a year, and is synchronised with the dates when the main committee sits.

The administering authority provides a forum outside of those arrangements by which the interests of key stakeholders can be represented.

The Pension Panel sits on a quarterly basis. The GMB union has the option to be represented in these meetings.

## **Access**

Subject to any rules in the Council's constitution, all members of main and secondary committees or Panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee. Barking and Dagenham is fully compliant with this principle.

## **Scope**

The administering authority has taken steps to bring wider scheme issues within the scope of their governance arrangements.

The Pension Panel has a broad work programme which is regularly reviewed and updated in light of current developments. Key issues such as investment performance are considered on a quarterly basis, documents such as the statement of investment principles is reviewed at least annually, and current developments are a regular agenda item for the Panel.

## **Publicity**

The administering authority has published details of their governance arrangements in such a way that stakeholders with an interest in the way in which a scheme is governed can express an interest in wanting to be part of those arrangements.

The Fund has a communication policy that sets out how it communicates with stakeholders. The Fund's Annual Report is reported to the Council's Executive on an annual basis. This document is published on the Council's website and is included in the Fund Annual Report.

**Appendix 3:**



**London Borough of Barking and Dagenham  
Pension Fund**



**Funding Strategy Statement  
2017 to 2018**

## **Funding Strategy Statement**

## **PAGE**

1	Introduction	1
2	Basic Funding issues	4
3	Calculating contributions for individual Employers	9
4	Funding strategy and links to investment strategy	19
5	Statutory reporting and comparison to other LGPS Funds	21

## **Appendices**

	Appendix A – Regulatory framework	21
	Appendix B – Responsibilities of key parties	25
	Appendix C – Key risks and controls	27
	Appendix D – The calculation of Employer contributions	31
	Appendix E – Actuarial assumptions	35
	Appendix F – Glossary	38

## 1 Introduction

### 1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Barking and Dagenham Pension Fund (“the Fund”), which is administered by the London Borough of Barking and Dagenham, (“the Administering Authority”). It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and advisers. It is effective from 1 April 2017.

### 1.2 What is the London Borough of Barking and Dagenham Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Fund to make sure it:

- receives the proper amount of contributions and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

### 1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions;
- transparency of processes;
- stability of employers’ contributions; and
- prudence in the funding basis.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

The FSS is a summary of the Fund’s approach to funding its liabilities, and this includes reference to the Fund’s other policies; it is not an exhaustive statement of policy on all issues.

The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement (see [Section 4](#))

#### 1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money; and
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

#### 1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view to ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- 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.

## 1.6 How do I find my way around this document?

In [Section 2](#) there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy. In the [Appendices](#) we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed;
- B. who is responsible for what;
- C. what issues the Fund needs to monitor, and how it manages its risks;
- D. some more details about the actuarial calculations required;
- E. the assumptions which the Fund actuary currently makes about the future; and
- F. a [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries please contact David Dickinson, Group Manager – Treasury and Pensions in the first instance at e-mail address [david.dickinson@lbbd.gov.uk](mailto:david.dickinson@lbbd.gov.uk) or on telephone number 0208 227 2722.

## 2 Basic Funding issues

(More detailed and extensive descriptions are given in [Appendix D](#)).

### 2.1 How does the actuary measure the required contribution rate?

This is a three-step process:

5. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions we make to determine that funding target;
6. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
7. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See [2.3](#) below, and the table in [3.3 Note \(e\)](#) for more details.

### 2.2 What is each employer's contribution rate?

This is described in more detail in [Appendix D](#). Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report and can also be found in [Appendix G](#). Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

### 2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However, over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

Participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst most members will be local authority employees (and ex-

employees), most participating employers are those providing services in place of (or alongside) local authority services: academies, contractors, housing associations etc.

The LGPS Regulations define various types of employer as follows:

**Scheduled bodies** - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public-sector scheme (i.e. Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regs.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies’ membership in LGPS Funds.

**Designating employers** - employers such as town and parish councils can participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund can set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

## 2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers, it may be agreed to pool contributions, see [3.4](#).

Any costs of non-ill-health early retirements must be paid by the employer, see [3.6](#).

Costs of ill-health early retirements are covered in [3.7](#) and [3.8](#).

## 2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see [Appendix D](#), section [D5](#), for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer-term issue.

## 2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and

- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation ([see 3.3 Note \(b\)](#)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see [Appendix A](#).

### 3 Calculating contributions for individual Employers

#### 3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. The Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk to the Fund.

The Administering Authority recognises that there may occasionally be circumstances affecting individual employers that are not easily managed within the rules and policies set out in the FSS. Therefore, the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

#### 3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three-step process above. At their absolute discretion, the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will incur a greater loss of investment returns on the deficit. Thus, deferring contributions may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf ([3.3](#)) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Council	Colleges	Academies	Open to new entrants	Closed to new entrants	(all)
<b>Funding Basis used</b>	Ongoing, assumes long-term Fund participation (see <a href="#">Appendix E</a> )			Ongoing, but may move to “gilts basis” - see <a href="#">Note (a)</a>		Ongoing, assumes fixed contract term in the Fund (see <a href="#">Appendix E</a> )
<b>Primary approach</b>	(see <a href="#">Appendix D – D.2</a> )					
<b>Stabilised contribution rate?</b>	Yes - see <a href="#">Note (b)</a>	No	No	No	No	No
<b>Maximum time horizon – <a href="#">Note (c)</a></b>	17 years	17 years	17 years	Future working lifetime	Future working lifetime	Outstanding contract term
<b>Secondary rate – <a href="#">Note (d)</a></b>	% of payroll	% of payroll	% of payroll	% of payroll	% of payroll	% of payroll
<b>Treatment of surplus</b>	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority			Preferred approach: contributions kept at future service rate. However, contractors may be permitted to reduce contributions by spreading the surplus over the remaining contract term	
<b>Probability of achieving target – <a href="#">Note (e)</a></b>	66%	70%	70%	66% if guaranteed, 75% otherwise	66% if guaranteed, 75% otherwise	66% if guaranteed, 75% otherwise
<b>Phasing of contribution changes</b>	Covered by stabilisation arrangement	At the discretion of the Administering Authority		None	None	None
<b>Review of rates – <a href="#">Note (f)</a></b>	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
<b>New employer</b>	n/a	n/a	<a href="#">Note (g)</a>	<a href="#">Note (h)</a>		<a href="#">Notes (h) &amp; (i)</a>
<b>Cessation of participation: cessation debt payable</b>	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per <a href="#">Note (i)</a> .			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see <a href="#">Note (j)</a> .		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

### **Note (a) (Basis for CABs and Designating Employers closed to new entrants)**

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

### **Note (b) (Stabilisation)**

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short-term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long-term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies to London Borough of Barking and Dagenham Council as a tax raising body.

Based on extensive modelling carried out for the 2016 valuation exercise (see [Section 4](#)), total contributions have been set to ensure that stabilised employers have at least a 66% chance of being fully funded in 20 years under the 2016 formal valuation assumptions.

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However, the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, based on membership and/or employer changes as described above.

### **Note (c) (Maximum time horizon)**

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

### **Note (d) (Secondary rate)**

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the three-year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

### **Note (e) (Probability of achieving funding target)**

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in [Appendix D](#).

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

### **Note (f) (Regular Reviews)**

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

### **Note (g) (New Academy conversions)**

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- i. The new academy will be regarded as a separate employer and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The asset allocation will be based on market conditions and active Fund membership on the day prior to conversion;
- iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and membership data, all as at the day prior to conversion;
- v. As an alternative to (iv), the academy will have the option to elect to pay contributions initially in line with the ceding LEA instead. However, this election will not alter its asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of the FSS.

### **Note (h) (New Admission Bodies)**

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all the following:

- the strain cost of redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- allowance for the risk of a fall in gilt yields; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also [Note \(i\)](#) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

### **Note (i) (New Transferee Admission Bodies)**

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see [Note \(j\)](#).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. 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 contractor:

- i) 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, which may be under a stabilisation approach.
- ii) 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 contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.
- iii) Fixed contribution rate agreed  
Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

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. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example, the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

#### **Note (j) (Admission Bodies Ceasing)**

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer acting for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- (a) Where a guarantor does not exist then, to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a “gilts cessation basis”, which is more prudent than the ongoing basis. This has no allowance for

potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

- (b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in [Appendix E](#);
- (c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being a security in place for the employer (i.e. a bond indemnity or guarantee).

If the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter an agreement with the ceasing Admission Body. Under this agreement, the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: The Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

### 3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. Currently the pools in place within the Fund are as follows:

- Schools generally are also pooled with their funding Council. However, there may be exceptions for specialist or independent schools.
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate. Employers permitted to enter (or remain in) a pool at the 2016 valuation will not be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

### **3.5 Additional flexibility in return for added security**

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may consider factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

### **3.6 Non-ill health early retirement costs**

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). 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. With the agreement of the Administering Authority the payment is paid immediately:

### **3.7 Ill health early 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 (see [3.8](#) below).

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non-ill-health cases. Details will be included in each separate Admission Agreement.

### **3.8 External Ill health insurance**

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.

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.

### 3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see [3.3, Note \(j\)](#)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

### 3.10 Policies on bulk transfers

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

## 4 Funding strategy and links to investment strategy

### 4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

The administering authority sets the investment strategy, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile. The same investment strategy is currently followed for all employers.

### 4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa. Therefore, the funding and investment strategies are inextricably linked.

### 4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix [E3](#)) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix [A1](#)).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in [Section 3](#) will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

### 4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;

- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and
- 
- Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.
- 

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach ([see 3.3 Note \(b\)](#)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in [3.3 Note \(b\)](#), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

#### 4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and Employers Forums.

## 5 Statutory reporting and comparison to other LGPS Funds

### 5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

### 5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

### 5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark. Relative considerations include:

- 1. the implied deficit recovery period; and
- 2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

## Appendix A – Regulatory framework

### A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS 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.”*
- 

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

### A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers on 13 January 2017 for comment;
- b) Comments were requested within 30 days;
- c) The draft FSS will be taken to the Pension Board on 27 February at which questions regarding the FSS can be raised and answered;
- d) Following the end of the consultation period the FSS will be updated where required and will be taken to the Pension Panel on the 15<sup>th</sup> of March 2017 for agreement.
- e) The FSS will then published by 31 March 2017.
- f) The FSS is made available through the following routes:
  - Published on the website: [www.lbbdpensionfund.org](http://www.lbbdpensionfund.org);
  - A copy sent by e-mail to each participating employer in the Fund;
  - A full copy [included in/linked from] the annual report and accounts of the Fund;
  - Copies sent to investment managers and advisers;

#### **A4 How often is the FSS reviewed?**

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three-year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

• In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

#### **A5 How does the FSS fit into other Fund documents?**

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are several separate statements published by the Fund including the Investment Strategy Statement, Governance and Communications Strategy and an Annual Report and Accounts with up to date information on the Fund. These documents can be found on the web at [www.lbbdpensionfund.org](http://www.lbbdpensionfund.org).

## **Appendix B – Responsibilities of key parties**

The efficient and effective operation of the Fund needs various parties to each play their part.

### **B1 The Administering Authority should:-**

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. respond appropriately to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
11. prepare and maintain a FSS and a SIP/ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

### **B2 The Individual Employer should:-**

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

### **B3 The Fund Actuary should:-**

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

**B4 Other parties: -**

1. investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

## Appendix C – Key risks and controls

### C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

### C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested based on specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer-term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on

Risk	Summary of Control Mechanisms
	pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see <a href="#">3.9</a> ).

### C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see <a href="#">Note (b)</a> to <a href="#">3.3</a> ). For other employers, review of contributions is permitted in general between valuations (see <a href="#">Note (f)</a> to <a href="#">3.3</a> ) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

#### C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see <a href="#">Section 5</a> ).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

#### C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.

Risk	Summary of Control Mechanisms
<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <ul style="list-style-type: none"> <li>Seeking a funding guarantee from another scheme employer, or external body, wherever possible (see <a href="#">Notes (h)</a> and <a href="#">(i)</a> to <a href="#">3.3</a>).</li> <li>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</li> <li>Vetting prospective employers before admission.</li> <li>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</li> <li>Requiring new Community Admission Bodies to have a guarantor.</li> <li>Reviewing bond or guarantor arrangements at regular intervals (see <a href="#">Note (f)</a> to <a href="#">3.3</a>).</li> <li>Reviewing contributions well ahead of cessation if thought appropriate (see <a href="#">Note (a)</a> to <a href="#">3.3</a>).</li> </ul>

## Appendix D – The calculation of Employer contributions

In [Section 2](#) there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)):

1. The **funding target** is based on a set of assumptions about the future, e.g. investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;
3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

### **D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?**

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see [D2](#) below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see [D3](#) below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

### **D2 How is the Primary contribution rate calculated?**

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits\*, excluding any accrued assets,
2. within the determined time horizon (see [note 3.3 Note \(c\)](#) for further details),
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

\* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that the Fund bears them, and includes allowances for benefits payable on death in service and on ill health retirement.

### **D3 How is the Secondary contribution rate calculated?**

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see [Appendix E](#). These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see [Section 3](#)).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see [D5](#) below)
- within the determined time horizon (see [3.3 Note \(c\)](#) for further details)
- with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

#### **D4 What affects a given employer's valuation results?**

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non-ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

#### **D5 How is each employer's asset share calculated?**

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make several simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

## **Appendix E – Actuarial assumptions**

### **E1 What are the actuarial assumptions?**

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits. Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

### **E2 What basis is used by the Fund?**

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see [Note \(a\)](#) to [3.3](#).

### **E3 What assumptions are made in the ongoing basis?**

#### **a) Investment return / discount rate**

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.9% per annum greater than gilt yields at the time of the valuation (this is higher than that used at the 2013 valuation, which therefore gives a lower funding target, all other things being equal). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

## **b) Salary growth**

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. retail prices index (RPI) p.a. thereafter.

This gives a single “blended” assumption of RPI less 0.55%. This is a change from the previous valuation, which assumed a flat assumption of RPI plus 0.5% per annum. The change has led to a reduction in the funding target (all other things being equal).

## **c) Pension increases**

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we have used a reduction of 1.0% per annum. This is a larger reduction than at 2013 (which was 0.8% p.a.), which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

## **d) Life expectancy**

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is to reduce life expectancy by around 0.5 years on average, which reduces the funding target all other things

being equal. The approach taken is considered reasonable in light of the long-term nature of the Fund and the assumed level of security underpinning members' benefits.

**e) General**

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in [\(3.3\)](#), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

## Appendix F – Glossary

<b>Actuarial assumptions/basis</b>	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of <b>the funding target</b> . The main assumptions will relate to the <b>discount rate</b> , salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund’s “trustees”.
<b>Admission Bodies</b>	Employers where there is an Admission Agreement setting out the employer’s obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see <a href="#">2.3</a> ).
<b>Covenant</b>	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
<b>Designating Employer</b>	Employers such as town and parish councils that can participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
<b>Discount rate</b>	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a <b>funding target</b> which is consistent with the present-day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the <b>Primary and Secondary rates</b> .
<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>funding target</b> values for each employer are individually tracked, together with its <b>Primary rate</b> at each <b>valuation</b> .
<b>Funding target</b>	The actuarially calculated present value of all pension entitlements of all <b>members</b> of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the <b>deficit</b> . It is calculated on a chosen set of <b>actuarial assumptions</b> .
<b>Gilt</b>	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be “fixed interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.

<b>Guarantee guarantor</b>	/ A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's <b>covenant</b> to be as strong as its guarantor's.
<b>Letting employer</b>	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
<b>LGPS</b>	The Local Government Pension Scheme, a public-sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
<b>Maturity</b>	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
<b>Members</b>	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
<b>Primary contribution rate</b>	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
<b>Profile</b>	The profile of an employer's membership or liability reflects various measurements of that employer's <b>members</b> , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its <b>maturity</b> also.
<b>Rates and Adjustments Certificate</b>	A formal document required by the LGPS Regulations, which must be updated at least every three years after the formal <b>valuation</b> . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three-year period until the next valuation is completed.

<b>Scheduled Bodies</b>	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
<b>Secondary contribution rate Stabilisation</b>	The difference between the employer's actual and <b>Primary contribution rates</b> . In broad terms, this relates to the shortfall of its asset share to its <b>funding target</b> . See <a href="#">Appendix D</a> for further details. Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
<b>Valuation</b>	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

<b>Employer/Pool Name</b>	<b>Primary rate 2017/18</b>	<b>Secondary rate 2017/18</b>	<b>Primary rate 2018/19</b>	<b>Secondary rate 2018/19</b>	<b>Primary rate 2019/20</b>	<b>Secondary rate 2019/20</b>
LBBB	17.8%	5.7%	17.8%	5.70%	17.8%	5.70%
University of East London*	18.0%	8.60%	18.0%	8.60%	18.0%	8.60%
Barking College	19.0%	6.30%	19.0%	6.30%	19.0%	6.30%
Barking and Dagenham CAB	28.8%	14.2%	28.8%	14.2%	28.8%	14.2%
Broadway Theatre	29.2%	1.90%	29.2%	1.90%	29.2%	1.90%
Elevate	25.6%	-4.3%	25.6%	-4.3%	25.6%	-4.30%
Laing O'Rourke	23.5%	4.60%	23.5%	4.60%	23.5%	4.60%
Thames View Infant Academy	18.1%	0.00%	18.1%	0.00%	18.1%	0.00%
Riverside Free School	17.3%	0.00%	17.3%	0.00%	17.3%	0.00%
Dorothy Barley Academy	18.7%	0.00%	18.7%	0.00%	18.7%	0.00%
Goresbrook School	15.6%	0.00%	15.6%	0.00%	15.6%	0.00%
Thames View Junior Academy	18.5%	1.50%	18.5%	1.50%	18.5%	1.50%
Sydney Russell Academy	18.8%	1.70%	18.8%	1.70%	18.8%	1.70%
Riverside Primary	17.6%	0.00%	17.6%	0.00%	17.6%	0.00%
Riverside SEN School	17.7%	0.00%	17.7%	0.00%	17.7%	0.00%
Partnership Learning	18.1%	3.80%	18.1%	3.80%	18.1%	3.80%
Elutec	18.8%	1.20%	18.8%	1.20%	18.8%	1.20%
Warren School Academy Pool	20.4%	4.00%	20.4%	4.00%	20.4%	4.00%

- Rates agreed subject to collateral being agreed with the UEL as a security for the outstanding deficit.

## **APPENDIX B**

### **Responsibilities of Key Parties**

#### ***The Administering Authority should:-***

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;
- prepare and maintain and FSS and a SIP, both after proper consultation with interested parties;
- monitor all aspects of the fund's performance and funding and amend FSS/SIP; and
- advise the Actuary of any new or ceasing employers.

#### ***The Individual Employer should:-***

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- provide annual reconciliation of pay and contributions promptly to the employer at the end of the financial year;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding.

#### ***The Fund actuary should:-***

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS; and
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

**Appendix 4:**



**London Borough of Barking and  
Dagenham Pension Fund**



**INVESTMENT STRATEGY  
STATEMENT**

## 1. Introduction

This is the Investment Strategy Statement (ISS) produced by London Borough of Barking and Dagenham as administering authority of the London Borough of Barking and Dagenham Pension Fund (“the Fund”), to comply with the regulatory requirements specified in The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the Statutory Guidance on Preparing and Maintaining an Investment Strategy Statement issued by the Department for Communities and Local Government (DCLG) in September 2016.

The Regulations (regulation 7) set out that the ISS must include:

- a) a requirement to invest fund money in a wide variety of investments;*
- b) the authority’s assessment of the suitability of particular investments and types of investments;*
- c) the authority’s approach to risk, including the ways in which risks are to be assessed and managed;*
- d) the authority’s approach to pooling investments, including the use of collective investment vehicles and shared services;*
- e) the authority’s policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and*
- f) the authority’s policy on the exercise of the rights (including voting rights) attaching to investments.*

This ISS seeks to address the Requirements of Regulation 7 and the Statutory Guidance of September 2016.

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 of the LGPS (Management and Investment of Funds) Regulations 2009;
- Fund’s approach to pooling investments and shared services;
- How social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- The Fund’s assessment of the suitability of all major asset classes.

The Statement is subject to review from time to time and will certainly be reviewed within six months of any material change in investment policy or other matters as required by law. As a minimum the ISS must be reviewed every three years. The ISS has been produced following a complete review of the Fund’s investment strategy and incorporates the requirements of the Funding Strategy Statement. In preparing this Statement the administering authority has taken and considered advice from the Fund’s Investment Advisor, Aon Hewitt, and from the Fund’s Independent Investment Advisor, John Raisin Financial Services Limited.

A copy of the ISS can be found at: [www.lbbdpensionfund.org](http://www.lbbdpensionfund.org)  
For further information please contact David Dickinson: [david.dickinson@lbbd.gov.uk](mailto:david.dickinson@lbbd.gov.uk).

## **2. Overall Responsibilities**

A full explanation of the Fund's governance arrangements can be found in the Council's Constitution Part C – Responsibility for Functions – Our Scheme of Delegation - Section M – The Pension Panel published on the Council's website: <http://www.lbbd.gov.uk/CouncilandDemocracy/Documents/Constitution/const-c-section-m.pdf>

## **3. Investment Responsibilities**

The 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 Financial Services Limited.

As at 31 December 2016 the Pension Panel comprised:

### **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
Employer Representative:	Dusty Amroliwala (UEL)

In preparing the ISS the Panel has consulted with the administering authority and other principal employers within the Fund and has taken and considered proper written advice from the Aon Hewitt and John Raisin Financial Services Limited.

In Appendix A, the Panel has set out details of the extent to which the Fund complies with the six principles set out in the Chartered Institute of Public Finance and Accountancy's (CIPFA) publication, 'Investment Decision Making and Disclosure in the Local Government Pension Scheme 2012 – a guide to the application of the 2008 Myners Principles to the management of LGPS funds'.

Although under the LGPS Investment Regulations 2016 an Administering Authority is no longer required to report the extent of their compliance against the Myners Principles, the London Borough of Barking and Dagenham has decided to continue to report this, as an appendix to the ISS, as it considers this to be both good governance practice and an element of good investment practice.

#### **4. Fund Objective**

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Panel aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of employer contributions is set to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

This funding position will be reviewed at each triennial actuarial valuation of the Fund, or more frequently as required. The most recent triennial valuation took place in 2016, with the contribution rates effective from 1 April 2017.

#### **5. Investment Strategy**

The Panel has translated its objectives into a suitable strategic asset allocation benchmark for the Fund (Appendix B). Within the strategic benchmark the investment structure adopted by the Panel comprises a mix of segregated and pooled manager mandates, including actively managed and passive mandates. The Fund benchmark is consistent with the Panel's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. All day to day investment decisions have been delegated to the Fund's authorised investment managers.

The Panel monitors investment strategy relative to the agreed asset allocation benchmark. The investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

#### **6. Pooling Investments** (Regulation 7(2)(d) - The approach to pooling investments, including the use of collective investment vehicles and shared services).

The Fund has formally agreed to join the London Collective Investment Vehicle (LCIV) as part of the Government's pooling agenda. The LCIV is fully authorised by the FCA as an Alternative Investment Fund Manager ("AIFM") with permission to operate a UK based Authorised Contractual Scheme fund (the "ACS Fund"). The ACS Fund, which is tax transparent in the context of international tax treaties, will be structured as an umbrella fund with a range of sub-funds providing access, over time, to the full range of asset classes that the boroughs require to implement their investment strategies.

For all future investments, where there is a suitable asset class provided, the Fund will seek to utilise the LCIV. Unless prohibited by Regulation or Statutory Guidance where the asset class is not available via the LCIV and it is not appropriate to access it via a passive allocation, the Fund will seek clarification from DCLG as to whether the Fund can tender for a suitable manager.

### Current LCIV allocations

As at 31 December 2016 the Fund had nearly a third of its assets invested through the LCIV, including:

- Two Diversified Growth Managers: Newton, Pyrford
- One active equity manager: Baillie Gifford.

### Passive Investments via Life Funds

Approximately a fifth of the Fund's investments are via passively managed Life Funds. LIFE Funds are exempt from being included within the pooling arrangements. This allocation will be reviewed annually.

### Current Partnerships

The Fund is invested in three separate partnerships including one in an alternatives investment with M&G / Prudential and two with the Fund's infrastructure manager Hermes GPE. The size of the M&G / Prudential investment is a maximum of 1% of the Fund's assets under management.

The infrastructure investment is accessed via two partnerships, with a limit of 10%. The allocation was agreed by the pension panel on 19 June 2012 and subsequently increased to 10.0% at the 23 March 2015 Panel, with an investment period limited to 17 years. From 1 April 2017, the split allocation will be combined into one LLP.

The Fund has a 10% allocation to LLPs and these investments will remain outside of the LCIV.

### Diversified Alternatives

The Fund has a 7% investment in Diversified Alternatives, including Hedge Funds and Private Equity via Aberdeen Asset Management. These illiquid assets will not be moved to the LCIV until there is an adequate alternative provided by LCIV.

### Credit, Property and Equity Income Strategy

The Fund has approximately 30% of its assets invested in credit, property, and an equity income strategy. There is the potential for these allocations to be moved to the LCIV and these holdings will be reviewed as and when suitable alternatives are provided by the LCIV. The review will consider the strategy, the assets held, the risks and the suitability of the strategy within the overall Fund prior to any investment agreement being made and proper advice will be sought from the Fund's advisors. Where an alternative is suitable then transition arrangement will be arranged.

If the alternative strategy is not suitable then the current manager will remain. If there is a requirement for the Fund to move from the manager to the LCIV then an alternative solution will be to seek to access a suitable passive strategy through a LIFE Fund.

## **7. Funding Strategy Statement**

There are close links between the ISS and the Funding Strategy Statement, which sets out the Fund's approach to funding its pension liabilities and the resulting impact on employer contribution rates. The Funding Strategy Statement is available on the Fund's website: [www.lbbdpensionfund.org](http://www.lbbdpensionfund.org)

## **8. Types of investment to be held**

The Fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, fixed and index linked bonds, cash, property and commodities, infrastructure and diversified alternatives, either directly or through pooled funds.

The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products, for the purpose of efficient portfolio management or to hedge specific risks. The Panel considers all of these classes of investment to be suitable in the circumstances of the Fund.

The strategic asset allocation of the Fund includes a mix of asset types across a range of geographies in order to provide diversification of returns.

## **9. Statutory Investment Limits**

Statutory maximum limits, as previously outlined in schedule 1 of the LGPS (Management and Investment of Funds) Regulations 2009 are no longer applicable. Instead this Fund will make asset allocation decisions based on a prudential approach to securing a diversified investment strategy.

The maximum percentage of the Fund's total value that the Fund will invest in each asset class is provided below and is subject to an annual review:

Equities	55%	Bonds	25%
Absolute Return	30%	Property	20%
Infrastructure	20%	Diversified Alternatives	20%

## **10. Balance between various kinds of investments**

The Panel has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Panel, after seeking proper advice, agreed specific benchmarks for each manager so that, in aggregate, they are consistent with the Fund's asset allocation. The Fund's investment managers hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers maintain diversified portfolios through direct investment or pooled vehicles.

In March 2017 an Asset Liability Review (ALR) was completed by Aon, with a training session held on 13 March 2017. Following the ALR a review of the strategy will be completed and the ISS updated to reflect any agreed changes.

## 11. Derisking Strategy

At the June 2017 Pension Panel Members agreed to a revised derisking strategy (see appendix C). The derisking strategy is implemented when the Fund's funding level reaches a number of levels.

The derisking strategy considers the need to derisk through investing in inflation linked assets, but also through derisking away from fund manager risk and also derisking through investing in less risky assets with the various asset classes.

## 12. Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are:

### Funding risks:

- Financial mismatch
  1. The risk Fund assets fail to grow in line with cost of meeting Fund liabilities.
  2. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics –The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

The Panel measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Panel keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Panel seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise.

### Asset risks

- Concentration - risk a significant allocation to a single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates

The Panel manages asset risks as follows:

It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrains risk within the Panel's expected parameters. By investing across a range of assets, including quoted equities and bonds; the Panel has recognised the need for some access to liquidity in the short term. In appointing several investment managers, the Panel has considered the risk of underperformance by any single investment manager.

### **Other provider risk**

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Panel takes professional advice and considers the appointment of specialist transition managers.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Panel monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

The Fund also maintains an extensive risk register, where risks the Fund is exposed to are considered, with appropriate action taken to mitigate the risk where possible.

### **13. Realisation of investments**

The majority of the Fund's investments are quoted on major stock markets and may be realised relatively quickly if required. A proportion of the Fund's investments, including Property, Infrastructure and Diversified Alternatives, with 7%, 10% and 7% respective benchmark allocations, would take longer to be realised.

The overall liquidity of the Fund's assets is considered in the light of potential demands for cash.

### **14. Expected return on investments**

Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the actuary in funding the Fund. For the 2016 triennial valuation the actuary has calculated the return expectation as 4.1%.

**15. Social, Environmental and Ethical Considerations** (Regulation 7(2)(e) - How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments)

The Fund is committed to being a long-term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills.

The Panel recognises that social, environmental and ethical considerations (SEE) are among the factors which investment managers will take into account, where relevant, when selecting investments for purchase, retention or sale. In addition, the Panel undertakes training on a regular basis and this will include training and information sessions on matters of social, environmental and corporate governance.

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments regarding their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Fund will invest on the basis of financial risk and return having considered a range of factors contributing to the financial risk including social, environment & governance factors to the extent these directly or indirectly impact on financial risk and return.

The Fund, in preparing and reviewing its ISS will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

**Current Restrictions:**

At the 12 March 2014 Panel Meeting, Members agreed a policy to restrict direct investment in tobacco but allow indirect investments in tobacco through pooled funds for both passive and active managers. This restriction will be reviewed as part of each Investment Strategy Review.

**16. Exercise of Voting Rights** (Regulation 7(2)(f) - The exercise of rights (including voting rights) attaching to investments)

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and wider society.

The Panel has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the manager(s) has produced written guidelines of its process and practice in this regard. The manager(s) is encouraged to vote in line with its guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Investments through LCIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Council and Pension Fund website:

- a) The Fund has issued a Statement of Compliance with the Stewardship Code which can be found on the Council / Pension Fund website and has also agreed to become a signatory to the Code.
- b) The Fund has reviewed the London CIV Statement of Compliance with the Stewardship Code and has agreed to adopt this Statement.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund, through its participation in the London CIV, will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests. In addition the Fund:

- a) is a member of the LAPFF and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners
- b) gives support to shareholder resolutions where these reflect concerns which are shared and represent the Fund interest
- c) joins wider lobbying activities where appropriate opportunities arise.

## **17. Stock Lending**

The policy on stock lending reflects the nature of the mandates awarded to investment managers by the Panel, which include both pooled and segregated mandates.

The Panel has considered its approach to stock lending, taking advice from its investment advisers. After consideration of that advice, the Panel has given authority to its custodian to lend stocks (principally equities) within its mandates subject to agreed collateral being provided and an overall restriction that the proportion of Fund assets that are available to be lent at any time is limited to 25% of Fund assets.

Stock lending does not prevent any investments from being sold. Safeguards are in place to reduce the risk of financial loss to the Fund in the event of default. These safeguards include receiving liquid collateral in excess of the value of the loan, indemnity agreement with the lending agent and regular reviews of credit-worthiness of potential borrowers. The Panel reviews its policy on stock lending (including the amount and type of collateral used) on a regular basis.

## **18. Safekeeping of Assets**

A global custodian is employed to ensure the safekeeping of investments.

## **19. Performance measurement**

An independent provider is employed to calculate performance for the Funds. Each quarter, the Panel considers the performance of the combined assets and each manager's portfolio against their respective benchmark. The Panel review performance on an annual basis.

## **20. Stewardship Code**

The UK Stewardship Code (SC) aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The Code sets out good practice on engagement with investee companies to which the FRC believes institutional investors should aspire and operates on a 'comply or explain' basis. In accordance with the Statutory Guidance of September 2016 the Fund has determined that it should become a Signatory to the Code (see Appendix D).

## **21. Additional Voluntary Contributions (AVCs)**

The Panel gives members the opportunity to invest in a range of vehicles at the members' discretion. Currently AVC is managed by Prudential Plc.

## **Signed For and on Behalf of the Fund**

---

Claire Symonds

---

Chief Operating Officer

## Appendix A: Myners Principles

The Pension Panel considers that its practices are compliant with the CIPFA principles for Investment Decision Making in LGPS. The 6 principles are:

- 1) Effective decision making;
- 2) Clear objectives;
- 3) Risk and liabilities;
- 4) Performance assessment;
- 5) Responsible ownership; and
- 6) Transparency and reporting.

The Panel's self-assessment of adherence to the principles is shown below

Principles	Response on Adherence
<p><b>Principle 1 Effective Decision Making:</b> Administering authorities should ensure:</p> <ul style="list-style-type: none"> <li>• That decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and</li> <li>• That those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</li> </ul>	<p><b>Compliant</b> Decisions are taken by the Pension Panel, which is responsible for the management of the Fund.</p> <p>The Panel has support from Council officers with sufficient experience to assist them. The Panel also seeks advice from professional actuarial and investment advisers to ensure it can be familiar with the issues concerned when making decisions.</p> <p>The Panel is able to make robust challenges to advice and is aware of where potential conflicts of interest may reside within the Panel and in relation to service providers.</p>
<p><b>Principle 2 Clear objectives:</b></p> <ul style="list-style-type: none"> <li>• An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.</li> </ul>	<p><b>Compliant</b> The Panel has established objectives for the Fund which takes account of the nature of Fund liabilities and the contribution strategy. This involved discussions with the Actuary to enable the Panel to set the overall risk budget for the Fund. This is reflected in the investment mandates awarded to the asset managers.</p> <p>There is dialogue with admitted bodies within the Fund in relation to the contributions they pay, their capacity to pay these contributions and the level of guarantees they can provide.</p>

<p><b>Principle 3 Risk and liabilities:</b></p> <ul style="list-style-type: none"> <li>• In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</li> <li>• These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</li> </ul>	<p><b>Compliant</b></p> <p>The investment strategy is considered in the light of the nature of the Fund liabilities, the timescale over which benefits will be paid, and financial and demographic factors affecting the liabilities, such as inflation and improving longevity.</p> <p>The Panel and Council officers have discussed the contribution strategy with the Actuary taking account of the strength of covenant of the Council and its long term horizon. Discussions have also taken place with admitted bodies in relation to the affordability of contributions and the strengths of their covenants.</p>
<p><b>Principle 4 Performance assessment:</b></p> <ul style="list-style-type: none"> <li>• Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.</li> <li>• Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.</li> </ul>	<p><b>Compliant</b></p> <p>The performance of the Fund and its individual managers are monitored on a regular basis.</p> <p>The quality of advisers is assessed on a qualitative basis but is not formally measured. Advisers are subject to periodic re-tender.</p> <p><i>The Fund's contracts with its advisers are regularly market tested.</i></p> <p><i>The Pension Panel will carry out a formal process to measure its own effectiveness and will report this to the Pensions Panel on a regular basis.</i></p> <p><i>Training and attendance of members of the Pensions Panel are monitored and reported on annually.</i></p>
<p><b>Principle 5 Responsible Ownership:</b></p> <p>Administering authorities should</p> <ul style="list-style-type: none"> <li>• recognise, and ensure that their partners in the investment chain adopt, the FRC's UK Stewardship Code</li> </ul>	<p><b>Compliant</b></p> <p>The Pensions Panel encourages its investment managers to adopt the Financial Reporting Council (FRC's) UK Stewardship Code but not all managers may necessarily comply fully with the Code's principles</p> <p>This Investment Strategy Statement includes a statement on the Fund's policy on responsible ownership.</p>

<ul style="list-style-type: none"> <li>• include a statement of their policy on responsible ownership in the Investment Strategy Statement.</li> <li>• Report periodically to scheme members on the discharge of such responsibilities.</li> </ul>	<p>The Fund has determined to become a Signatory to the FRC Code in accordance with the Statutory Guidance issued by the DCLG in September 2016 .</p>
<p><b>Principle 6 Transparency and Reporting:</b></p> <p>Administering authorities should</p> <ul style="list-style-type: none"> <li>• act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.</li> <li>• Should provide regular communication to scheme members in the form they consider most appropriate.</li> </ul>	<p><b>Compliant</b></p> <p>The Pension Panel maintains minutes of meetings which are available on the Council website.</p> <p>The Council holds a formal annual meeting for members and also meets periodically with sponsoring employer bodies. A member representative attends Panel meetings.</p> <p>The Investment Strategy Statement is published on the Council website and is available to members on request. Other information on the Scheme is available to members on the Council website.</p>

:

## Appendix B: Strategic Asset Allocation

The strategic asset allocation of the Fund, together with control ranges and the benchmark index for each asset class is as follows:

<b>Asset Class</b>	<b>Strategic Allocation 15 June 2017 %</b>	<b>Strategy Control Range %</b>	<b>Benchmark Index</b>
<b>Global Equities</b>	<b>48</b>	<b>45-53</b>	<b>MSCI AC World Index</b>
Growth	17	15-19	
Income Generating	15	13-17	
Passive Developed World	16	14-18	
<b>TOTAL EQUITIES</b>	<b>48</b>	<b>45-53</b>	MSCI AC World Index
<b>UK Bonds</b>	<b>4</b>	<b>3-5</b>	<b>Merrill Lynch Sterling Broad Market</b>
<b>Global Credit</b>	<b>8</b>	<b>6-10</b>	Target Return 4.5% (revised)
Non-investment grade bonds		Up to 75%	
Emerging markets debt		Up to 30%	
Non-rated debt (rated internally)		Up to 10%	
Securitised Debt		Up to 25%	
<b>TOTAL BONDS</b>	<b>12</b>	<b>9-15</b>	
<b>Absolute Return</b>	<b>18</b>	<b>16-20</b>	Pyrford: RPI +5% p.a. Newton: 1 mth LIBOR +4% p.a
<b>Property</b>	<b>7</b>	<b>6-9</b>	IPD UK Property Fund Indices All Balanced Property Funds
<b>Diversified Alternatives</b>	<b>6</b>	<b>6-10</b>	3mth LIBOR plus 4%
<b>Infrastructure</b>	<b>9</b>	<b>4-11</b>	Target yield 5.9% per annum
<b>Senior Loans*</b>	<b>0</b>	<b>0-1</b>	Target Return 5-6%
<b>Cash</b>	<b>0</b>	<b>0-2</b>	
<b>TOTAL ASSETS</b>	<b>100</b>	<b>-</b>	

\* Senior Loans Strategic Allocation reduced to 0% as holding is under 0.5%.

## Appendix C: Derisking Strategy

Asset Type	Triggers								Notes
	Strategic Allocation 15 June 2017	80%	85%	90%	93%	96%	100%	Target	
<b>High Growth Assets</b>	%	%	%	%	%	%	%	%	
Global Equity									
Growth	17	17	17	15	15	10	0	0	Reduce Equity to 35% when fully funded. Maintain income generating to cover cashflow requirements - all allocation is passive / fundamental index
Income Generating	15	15	15	15	15	15	0	0	
Passive Developed World	16	14	13	13	0	0	0	0	
Passive Income Generating	0	0	0	0	11	10	35	35	
Global Credit	8	8	8	7	7	5	0	0	Maintain allocation to 90% funded, then reduce. Reduce to nil when reach 96%
<b>Illiquid / DGF</b>									
Property	7	7	7	7	7	7	7	7	
Diversified Alternatives	6	6	6	6	6	6	6	6	
Diversified Growth Funds	18	20	21	22	23	23	20	20	Diversified growth funds provide protection but with a growth bias.
<b>No inflation link</b>									
UK Credit	4	2	0	0	0	0	0	0	Used to fund the initial move to IL Bonds
<b>Matching Assets</b>									
Index-Linked Gilts	0	2	4	6	7	15	23	23	
Infrastructure	9	9	9	9	9	9	9	9	
Inflation Linked Assets	0	0	0	0	0	0	0	0	
<b>Total</b>	100	100	100	100	100	100	100	100	

## Appendix D: Statement of Compliance with UK Stewardship Code

<p><b>Principle 1</b>  <i>Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.</i></p>	<p><i>Stewardship is seen as part of the responsibilities of share ownership, and is therefore an integral part of the Fund's investment strategy.</i></p> <p><i>The Pension Panel actively monitor the fund managers through quarterly performance analysis, annual and periodic meetings with the individual fund managers and through direct monitoring by the officers, which includes monitoring and reporting on:</i></p> <ul style="list-style-type: none"> <li>• <i>Fund manager performance;</i></li> <li>• <i>Investment Process compliance and changes;</i></li> <li>• <i>Changes in personnel (joiners and leavers);</i></li> <li>• <i>Significant portfolio developments;</i></li> <li>• <i>Breaches of the IMA / Restrictions;</i></li> <li>• <i>Business wins and losses; and</i></li> <li>• <i>Corporate and other issues.</i></li> </ul> <p><i>Voting is delegated to Fund Managers through the Investment Management Agreement (IMA).</i></p> <p><i>Baillie Gifford, UBS and Kempen take direct responsibility for stewardship issues, voting and engagement, in the funds which they manage on our behalf. These managers publish Statements of Compliance with the Stewardship code.</i></p> <p><i>Details are available on their websites at</i></p> <p><a href="http://www.bailliegifford.com/pages/UKInstitutional/CorporateGovernance/CorporateGovernanceSRI.aspx">www.bailliegifford.com/pages/UKInstitutional/CorporateGovernance/CorporateGovernanceSRI.aspx</a></p> <p><a href="http://www.ubs.com/global/en/about_ubs/corporate_covernance.htm">http://www.ubs.com/global/en/about_ubs/corporate_covernance.htm</a></p> <p><a href="http://www.kempen.nl/over_kempen.aspx?id=27770">http://www.kempen.nl/over_kempen.aspx?id=27770</a></p>
<p><b>Principle 2</b>  <i>Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.</i></p>	<p><i>We also encourage the asset managers employed by the Funds to have effective policies addressing potential conflicts of interest.</i></p> <p><i>In respect of conflicts of interest within the Fund, Pension Panel members are required to make declarations of interest prior to Panel meetings.</i></p> <p><i>The Funds' overriding obligation is to act in the best financial interests of the members.</i></p>

<p><b>Principle 3</b>  <i>Institutional investors should monitor their investee companies.</i></p>	<p><i>Day-to-day responsibility for managing the Fund's investments is delegated to the relevant fund managers, who are expected to monitor companies, intervene where necessary, and report back regularly on activity undertaken.</i></p> <p><i>Reports from fund managers on voting and engagement activity will be reported to the Panel on a quarterly basis from June 2013.</i></p> <p><i>Concerns are raised directly with the fund managers and issues raised are reported back to the Panel at the subsequent Panel meeting.</i></p> <p><i>Fund manager Internal Control reports are monitored, with breaches reported back to the Panel.</i></p> <p><i>Where the Fund is directly invested, such as infrastructure, members of the Panel and officers are able to attend their AGM.</i></p>
<p><b>Principle 4</b>  <i>Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.</i></p>	<p><i>As highlighted above, responsibility for day-to-day interaction with companies is delegated, including the escalation of engagement when necessary.</i></p> <p><i>We expect the approach to engagement on our behalf to be value orientated and focussed on long term profitability. We expect Kempen, Baillie Gifford and UBS to disclose their guidelines for such activities in their own statements of adherence to the Code. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.</i></p> <p><i>Consistent with our fiduciary duty to beneficiaries, we also participate in shareholder litigation. We pursue compensation for any losses sustained because of inappropriate actions by company directors in order to encourage improved conduct in the future.</i></p>
<p><b>Principle 5</b>  <i>Institutional investors should be willing to act collectively with other investors where appropriate</i></p>	<p><i>The Fund seeks to work collaboratively with other institutional shareholders in order to maximize the influence that it can have on individual companies.</i></p> <p><i>The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which seeks to promote the highest standards of corporate governance and corporate responsibility amongst investee companies.</i></p> <p><i>Where possible, the Fund seeks to exercise its voting rights attaching to its non- UK equity holdings by delegation through Power of Attorneys.</i></p>

<p><b>Principle 6</b>  <i>Institutional investors should have a clear policy on voting and disclosure of voting activity.</i></p>	<p><i>The emphasis of our voting policy is to promote best practice. We seek to vote on all shares held.</i></p> <p><i>Our preference is for managers to vote on the Funds behalf and for responsible stewardship to be integral to the investment decision making process.</i></p> <p><i>We are comfortable with delegation of voting to Baillie Gifford and Kempen for the funds they manage. UBS vote on our behalf because the investment is in a passive pooled fund. The managers' voting policies can be found at the websites mentioned above.</i></p>
<p><b>Principle 7</b>  <i>Institutional investors should report periodically on their stewardship and voting activities.</i></p>	<p><i>We will seek to report annually on stewardship activity through a specific section in the Funds' annual report and accounts and on our website.</i></p> <p><i>We also report annually on stewardship issues to the Pension Panel.</i></p>

## Appendix 5: Communications Policy Statement

### 1. Introduction

This is the Communications Policy Statement of LB of Barking and Dagenham Pension Fund, administered by LB of Barking and Dagenham (the Administering Authority).

The Fund liaises with over 30 employers and approximately 18,000 scheme members in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful. It is effective from 1 April 2017.

This policy statement is required by the provisions of Regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2008 and Regulation 106B of the Local Government Pension Scheme Regulations 1997. The provision requires us to:

*“...prepare, maintain and publish a written statement setting out their policy concerning communications with:*

- (a) members.*
- (b) representatives of members.*
- (c) prospective members.*
- (d) employing authorities.”*

*In addition it specifies that the statement must include information relating to:*

- “(a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;*
- (b) the format, frequency and method of distributing such information or publicity; and*
- (c) the promotion of the Scheme to prospective members and their employing authorities.”*

As a provider of an occupational pension scheme, we are already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other legislation, for example the Pensions Act 2004. Previously the disclosure requirements have been prescriptive, concentrating on timescales rather than quality. From 6 April 2006 more, generalised disclosure requirements are to be introduced, supported by a Code of Practice.

The type of information that pension schemes are required to disclose will remain very much the same as before, although the prescriptive timescales are being replaced with a more generic requirement to provide information within a *“reasonable period”*. The draft Code of Practice<sup>1</sup> issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met.

A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Management section of this document, alongside those proposed by the Pension Regulator in the draft Code of Practice (Code of Practice –

Reasonable periods for the purposes of the Occupational Pension Schemes (Disclosure of Information) Regulations 2006 issued September 2005)

Within the Pension Section the responsibility for communication material is performed by our Pension Manager with the assistance of the Senior Pensions Officer. Although we write most all communication within the section, including any web based or electronic material, the design work is carried out by the Council's publications team. We also carry out all the arrangements for forums, workshops and meetings covered within this statement.

Some printing is carried out by an external supplier, which is usually decided based on the most economical of three quotations from suppliers. In exceptional circumstances (either due to lack of skills or inability to meet delivery timescales), we may use external consultants to assist with the preparation or design of communications. Any such circumstances are agreed in advance with the Pensions Manager. The remainder of the printing is carried out internally by the Council's printing department.

## **2. Communication with key audience groups**

### **2.1 Our audience**

We communicate with most stakeholders. For the purposes of this communication policy statement, we are considering our communications with the following audience groups:

- active, deferred members, pensioners and prospective members;
- employing authorities (scheme employers and admission bodies);
- senior managers;
- union representatives;
- elected members/the Pension Panel;
- Pension Section staff;
- Tax payers, the media and other Stakeholders / Interested Parties.

In addition, there are many other stakeholders with whom we communicate on a regular basis, such as HMRC, solicitors, the Pensions Advisory Service, and other pension providers. We also consider as part of this policy how we communicate with these interested parties.

### **2.2 How we communicate**

- **General communication** - We use paper based communication as our main means of communicating, i.e. sending letters to our scheme members. However, we will compliment this by use of electronic means. We accept electronic communications, i.e. e-mail and, where we do so, we will respond electronically where possible. Pension staff are responsible for all pension related queries. Phone calls or visitors are passed to the relevant person within the section. Direct line phone numbers are advertised to allow easier access to the correct person;
- **Branding** - as the Fund is administered by the Administering Authority, all literature and communications will conform with the branding of the Council; and
- **Accessibility** - we recognise that individuals may have specific needs in relation to the format of our information or the language in which it is provided. Demand for

alternative formats/languages is not high enough to allow us to prepare alternative format/language material automatically; however, these are available on request.

### 2.3 Policy on Communication with Active, Deferred and Pensioner Members

Our objectives regarding communication with members are:

- for the LGPS to be used as a tool in the attraction and retention of employees;
- for better education on the benefits of the LGPS;
- to provide more opportunities for face to face communication;
- as a result of improved communication, for queries and complaints to be reduced;
- for our employers to be employers of choice;
- to increase take up of the LGPS employees; and
- to reassure stakeholders.

Our objectives will be met by providing the following communications, which are over and above individual communications with members (for example, the notifications of scheme benefit or responses to individual queries). The communications are explained in more detail in the table below:

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group
Scheme booklet	Paper based / on website	At joining & major scheme changes	Post to home address/via employers	Active
Newsletters	Paper based	As scheme changes necessitate notification	Via employers / post to home address	Separately for active / deferred and pensioners
Pension Fund Report and Accounts	Paper based and on website	Annually	On request	All
Pension Fund Accounts Summary	Paper based	At valuation	Via employers	All Actives
Estimated Benefit Statements	Paper based	Annually	Post to home address	active & deferred members
Face to Face education sessions	Face to Face	On request	On request	All
Joiner Packs	Paper based	On joining	Post to home addresses	Active members

### 2.4 Explanation of communications

- **Scheme booklet** – A booklet providing a relatively detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits;

- **Newsletters** – An ad hoc newsletter which provides updates in relation to changes to the LGPS as well as other related news, such as national changes to pensions, a summary of the accounts for the year, contact details, etc;
- **Fund Report and Accounts** – Details of the value of the Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers. This is a somewhat detailed and lengthy document and, therefore, it will not be routinely distributed except on request. A summary document, as detailed below, will be distributed;
- **Fund Report and Accounts Summary** – provides a handy summary of the position of the Fund during the financial year, income and expenditure as well as other related details;
- **Estimated Benefit Statements** – For active members these include the current value of benefits as well as the projected benefits at age 65. The associated death benefits are also shown as well as details of any individuals the member has nominated to receive the lump sum death grant. State benefits are also included. In relation to deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits;
- **Face to face education sessions** – These are education sessions that are available on request for small groups of members. For example, where an employer is going through a restructuring, it may be beneficial for the employees to understand the impact any pay reduction may have on their pension rights; and
- **Joiner packs** – These complement the joiner booklet and enclose information on AVCs and the paperwork needed to join the scheme.

## 2.5 Policy on promotion of the scheme to Prospective Members and their Employing Authorities

Our objectives regarding communication with prospective members are:

- to improve take up of the LGPS;
- the LGPS to be used as a tool in the attraction of employees; and
- our employers to be employers of choice.

The Pension Administration Section does not have direct access to prospective members which necessitates working with the employing authorities in the Fund to meet these objectives by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Overview of the LGPS leaflet	Paper based	On commencing employment	Via employers	New employees
Educational Sessions	As part of induction workshops	On commencing employment	Face to face	New employees
Promotional newsletters/flyers	Paper based	Ad Hoc	Via employers	Existing employees

## 2.6 Explanation of communications

- **Overview of the LGPS leaflet** – A short leaflet that summaries the costs of joining the LGPS and the benefits of doing so;
- **Educational sessions** – An opportunity to talk to individuals to provide an overview of the benefits of joining the LGPS;
- **Promotional newsletter/flyers** – These will be designed to help those who are not in the LGPS to understand the benefits of participating in the scheme and provide guidance on how to join the scheme.

## 2.7 Policy on promotion of the scheme with Employing Authorities

Our objectives regarding communication with employers are to:

- improve relationships;
- assist them in understanding costs/funding issues;
- work together to maintain accurate data;
- ensure smooth transfers of staff;
- ensure they understand the benefits of being an LGPS employer;
- assist them in making the most of the discretionary areas within the LGPS.

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group
Employers' Guide	Paper based	At joining and updated as necessary	Post or via email	Main contact for all employers
Newsletters	Electronic (e-mail) and paper based	As required	Post or via email	All contacts for all employers
Employers meeting	Face to face	As required / when contribution rate dictates	Invitations by email	All contacts for all employers
Pension Fund Report and Accounts	Paper based and employer website	Annually	Post	Main contact for employers

## 2.8 Explanation of communications

- **Employers' Guide** – a detailed guide that provides guidance on the employer responsibilities including the forms and other necessary communications with the Pension Section and scheme members;
- **Newsletters** – a technical briefing newsletter that will include recent changes to the scheme, the way the Pension Section is run and other relevant information so as to keep employers fully up to date;
- **Employers meeting** – a formal seminar style event covering topical LGPS issues;

- **Pension Fund Report and Accounts** – details of the value of the Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.

## 2.9 Policy on communication with Senior Managers

Our objectives regarding communication with senior managers are to:

- ensure they are fully aware of developments within the LGPS;
- ensure that they understand costs/funding issues;
- promote the benefits of the scheme as a recruitment/retention tool.

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All
Panel papers	Paper based and electronic	In advance of Pension Panel	Email or hard copy	All

## 2.10 Explanation of communications

- **Briefing papers** – a briefing that highlights key issues or developments relating to the LGPS and the Fund which can be used by senior managers when attending meetings;
- **Committee paper** – a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

## 2.11 Policy on communication with union representatives

Our objectives regarding communication with union representatives are to:

- foster close working relationships in communicating the benefits of the scheme to their members;
- ensure they are aware of the Fund's policy in relation to any decisions that need to be taken concerning the scheme;
- engage in discussions over the future of the scheme;
- provide opportunities to educate union representatives on the provisions of the scheme.

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All
Face to face education sessions	Face to face	On request	On request	All
Pension Panel meetings	Meeting	As and when required	Via invitation when appropriate	All

## 2.12 Explanation of communications

- **Briefing papers** – a briefing that highlights key issues and developments relating to the LGPS and the Fund;
- **Face to face education sessions** – these are education sessions that are available on request for union representatives and activists, for example to improve their understanding of the basic principles of the scheme, or to explain possible changes to policies;
- **Pension Panel meetings** – a formal meeting of elected members, attended by senior managers, at which local decisions in relation to the scheme (policies, etc) are taken.

## 2.13 Policy on communication with elected members/the Pensions Panel

Our objectives with regard to communication with elected members/the Pensions Panel are to:

- ensure they are aware of their responsibilities in relation to the scheme;
- seek their approval to the development or amendment of discretionary policies, where required;
- seek their approval to formal responses to government consultation in relation to the scheme.

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Training sessions	Face to face	As and when required	Face to face or via the Employers Organisation for local government	All members of the Pension Panel as well as other elected members
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All members of the Pension Panel
Pension Panel Meetings	Meeting	Monthly/quarterly/half yearly	Members elected onto Pension Panel	All members of the Pension Panel

## 2.14 Explanation of communications

- Training Sessions – providing a broad overview of the main provisions of the LGPS, and elected members' responsibilities within it;
- Briefing papers – a briefing that highlights key issues and developments to the LGPS and the Fund;
- Pension Panel meeting – a formal meeting of elected members, attended by senior managers, at which local decisions to the scheme (policies, etc.) are taken.

## 2.15 Policy on communication with pension section staff

Our objectives regarding communication with pension section staff are to:

- ensure they are aware of changes and proposed changes to the scheme;
- provide on the job training to new staff;
- develop improvements to services, and changes to processes as required;

- agree and monitor service standards.

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Face to face training sessions	Face to Face	As required	By arrangement	All
Staff meetings	Face to face	As required, but no less frequently than monthly	By arrangement	All
Attendance at seminars	Externally provided	As and when advertised	By email, paper based	All

## 2.16 Explanation of communications

- **Face to face training sessions** – which enable new staff to understand the basics of the scheme, or provide more in depth training to existing staff, either as part of their career development or to explain changes to the provisions of the scheme
- **Staff meetings** – to discuss any matters concerning the local administration of the scheme, including for example improvements to services or timescales
- **Attendance at seminars** – to provide more tailored training on specific issues.

## 2.17 Policy on communication with tax payers

Our objectives with regard to communication with tax payers are to:

- provide access to key information in relation to the management of the scheme;
- outline the management of the scheme.

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Pension Fund Report and Accounts	Paper based and on website	Annually	Post	All, on request
Pension Fund Committee Papers	Paper based and on website	As and when available	Post	All, on request

## 2.18 Explanation of communications

- **Pension Fund Report and Accounts** – details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers;
- **Fund Committee Papers** – a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

## 2.19 Policy on communication with the media

Our objectives regarding communication with the media are to:

- ensure the accurate reporting of Fund valuation results, the overall performance of the Fund and the Fund's policy decisions against discretionary elements of the scheme.

Our objectives will be met by providing the following communications:

<i>Method of Communication</i>	<i>Media</i>	<i>Frequency of Issue</i>	<i>Method of Distribution</i>	<i>Audience Group</i>
Press releases	Paper based or electronic	Every three years following the valuation of the Fund, annually on the publication of the Fund accounts and as and when required for other matters	Post or email	Local press

## 2.20 Explanation of communications

- **Press releases** – provide statements setting out the Fund's opinion of the matters concerned (i.e. Fund valuation results).

## 2.21 Policy on communication with other stakeholders/interested parties

Our objectives regarding communication with other stakeholder/interested parties are to:

- meet our obligations under various legislative requirements;
- ensure the proper administration of the scheme;
- deal with the resolutions of pension disputes; and
- Administer the Fund's AVC scheme.

Our objectives will be met by providing the following communications:

<i>Method of Communication</i>	<i>Media</i>	<i>Frequency of Issue</i>	<i>Method of Distribution</i>	<i>Audience Group</i>
Fund valuation reports R&A certificate Revised R&A certificates Cessation valuations	Electronic	Every three years	Via email	Her Majesty's Revenue and Customs (HMRC)/all scheme employers
Details of new employers in the Fund	Hard copy	As new employers are entered the Fund	Post	HMRC
Formal resolution of pension disputes	Hard copy or electronic	As and when a dispute requires resolution	Via email or post	Scheme member, representatives, PAS/Pensions Ombudsman
Completion of questionnaires	Electronic or hard copy	As and when required	Via email or post	HMRC/the Pensions Regulator

## 2.22 Explanation of communications

- Fund Valuation Reports – a report issued every three years setting out the estimated assets and liabilities of the Fund as well as setting out individual employer contribution rates for a three-year period commencing one year from the valuation date;
- Details of new employers – a legal requirement to notify both organisations of the name and type of employer entered the Fund (i.e. following admission of third party service providers);
- Resolution of pension disputes – a formal notification of pension dispute resolution, together with any additional correspondence relating to the dispute;
- Completion of questionnaires – various questionnaires that are received, requesting specific information in relation to the structure of the LGPS or the make-up of the Fund.

**2.23 Performance Measurement** - To measure the success of our communications with members, we use the following methods:

**2.24 Review Process** - We will review our communication policy to ensure it meets audience needs and regulatory requirements at least every three years. A current version of the policy statement will always be available on our website at [www.barking-dagenham.gov.uk](http://www.barking-dagenham.gov.uk) and paper copies will be available on request.

**2.25 Timeliness** - We will measure against the following target delivery timescales:

<b>Communication</b>	<b>Audience</b>	<b>Statutory delivery period</b>	<b>Target delivery period</b>
Scheme booklet / Brief Guide to the scheme	New joiners to the LGPS	Within two months of joining	Included with new joiner pack / day of joining the Council
Estimated Benefit Statements as at 31/03	Active members	On request	31 October of each year
Telephone calls	All	Not applicable	95% of phone calls to be answered within 30 seconds
Issue of retirement benefits	Active and deferred members retiring	Within two months of retirement	95% of retirement benefits to be issued with 5 working days of retirement
Issue of deferred benefits	Leavers	Within one months of withdrawal	Within one month
Transfers in	Joiners/active members	Within two months of request	Within one month
Issue of forms i.e. expression of wish	Active/Deferred members	N/A	Included within new joiner pack or upon request within five working days
Changes to scheme rules	Active/Deferred and pensioner members	as required	Within two months of the change coming into effect
Annual Pension Fund Report and Accounts	All	Within two months of request	Within five working days

**2.26 Quality**

<b><i>Audience</i></b>	<b><i>Method</i></b>	<b><i>To consider</i></b>	<b><i>Notes</i></b>
All member types	Annual paper base survey on completion of specific tasks	Service received during that task	One task to be chosen as and when required

**2.27 Results**

We will publish an overview of how we are performing when appropriate to active members. Full details will be reported to our Pensions Panel.

## Appendix 6: Fund Actuarial Statement for 2016/17

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2016/17.

### 1. Description of Funding Policy

The 2016 triennial review of the Fund took place as at 31 March 2016 and the salient features of that review were as follows:

- The funding target is to achieve a funding level of at least 100% over a specific period;
- Deficit recovery period reduced from 20 years in 2013 to 17 years in 2016;
- The key financial assumptions adopted at this valuation are:
  - Future levels of price inflation are based on the Consumer Price Index (CPI);
  - Funding discount rate based on an Asset Outperformance target of 1.7% p.a. above the yield on fixed interest (nominal) and index-linked (real) Government bonds;
  - The resulting discount rate of 4.1% (4.7% as at 31 March 2013).
- Market value of the scheme's assets at the date of the valuation were £772 million;
- The past service liabilities at the rate of the valuation were £1,001 Million;
- The resulting funding level was 77.2% (70.6% as at 31 March 2013); and
- The use of an appropriate asset outperformance assumption is based on available evidence and is a measure of the degree of prudence assumed in the funding strategy.

The valuation has made assumptions about member longevity and has used the following average future life expectancies for pensioners aged 65 at the valuation date

<b>Longevity Assumptions</b>	2013	2013	2016	2016
at 31 March	Male	Female	Male	Female
Average future life expectancy (in years for a pensioner)	21.8	24.0	<b>22.0</b>	<b>24.7</b>
Average future life expectancy (in years) at age 65 for non-pensioner assumed to be aged 45 at the valuation date	24.1	26.5	<b>24.0</b>	<b>26.4</b>

The key financial assumptions adopted by the actuary for the valuation of members' benefits at the 2016 valuation are set out below:

<b>Financial assumptions</b>	<b>31 March 2013</b>	<b>31 March 2016</b>
<b>Discount rate</b>		
Return on long-dated gilts	3.0%	2.2%
Asset Outperformance Assumption	1.7%*	1.9%*
<b>Discount rate</b>	<b>4.7%</b>	<b>4.1%</b>
<b>Benefit increases</b>		
Retail Prices Inflation (RPI)	3.3%	3.2%
Assumed RPI/CPI gap	(0.8%)*	(1.0%)*
<b>Benefit increase assumption (CPI)</b>	<b>2.5%</b>	<b>2.1%</b>
<b>Salary increases</b>		
Retail Prices Inflation (RPI)	3.3%	3.2%
Increases in excess of RPI	0.5%*	(0.6%)*
<b>Salary increase assumption</b>	<b>3.8%</b>	<b>2.6%</b>

\*Adjustments are applied arithmetically in 2013 and geometrically in 2016

## Funding level and position

The table below shows the detailed funding level for the 2016 valuation:

<b>Employer contribution rates</b>	As at 31 March	
	2013	2016
Primary Rate (net Employer Future Service Cost)	18.7%	<b>18.2%</b>
Secondary Rate (Past Service Adjustment – 17 year spread)	12.7%	<b>6.8%</b>
<b>Total Contribution Rate</b>	31.4%	<b>25.0%</b>

The Primary rate above includes an allowance for administration expenses of 0.4% of pay. The employee average contribution rate is 6.7% of pay. The table below shows the funding position as at 31 March 2016.

<b>Past Service Funding Position at 31 March</b>	As at 31 March 2013	As at 31 March 2016
<b>Past Service Liabilities</b>	£m	£m
Employees	(316)	<b>(324)</b>
Deferred Pensioners	(180)	<b>(221)</b>
Pensioners	(406)	<b>(456)</b>
	(902)	<b>(1,001)</b>
Market Value of Assets	636	<b>772</b>
<b>Funding Deficit</b>	<b>(266)</b>	<b>(228)</b>
<b>Funding Level</b>	70.6%	<b>77.2%</b>
<b>Present value of funded obligation</b>		

## Total contribution rate

The table below shows the minimum total contribution rates, expressed as a percentage of pensionable pay, which was applied to the 2016/17 accounting period:

<b>Scheduled Bodies</b>	<b>Rate %</b>	<b>Admitted Bodies</b>	<b>Rate %</b>
LBBB	24.5	B&D Citizen's Advice Bureau	33.1
Barking College	27.5	Cleantech	28.1
Dorothy Barely Academy	17.9	Elevate East London LLP	21.3
Elutec	22.4	Laing O'Rourke	14.0
Eastbury Academy	23.6	Schools Offices Services Ltd	24.4
Goresbrook Free School	10.8	The Broadway Theatre	30.6
Greatfields Free School	22.5		
Partnership Learning	26.6		
Riverside Bridge	20.3		
Riverside Free School	15.9		
Riverside School	19.6		
Sydney Russell	25.7		
Thames View Infants Academy	22.3		
Thames View Junior Academy	22.8		
University of East London	28.1		
Warren Academy	23.2		

## 2. Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 24 February 2014.

**Method:** The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

**Assumptions:** A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.70%	2.20%
Pay increases	3.80%	1.30%
Price inflation/Pension increases	2.50%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

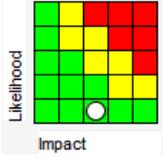
	Males	Females
Current Pensioners	21.8 years	24 years
Future Pensioners*	24.1 years	26.5 years

\*Currently aged 45

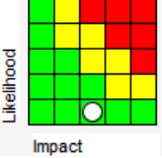
Copies of the 2013 valuation report and Funding Strategy Statement are available on request from London Borough of Barking and Dagenham, the administering authority to the Fund.

**Barry McKay FFA**  
**Fellow of the Institute and Faculty of Actuaries**  
**For and on behalf of Hymans Robertson LLP**

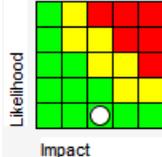
## Appendix 7: Pension Fund Risk Register

1 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Underlying financial information is incorrect	Information contained in Report & Accounts is inaccurate due to poor financial controls and recording of financial information leading to qualification of accounts and inaccurate valuations with financial and reputational impact	Finance		Reviewed April 2017 - ongoing

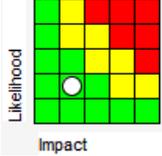
Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Underlying financial information incorrect: Monitoring Reconciliations of key financial transactions.	Quarterly & annual reconciliations of all accounting data. Monthly reconciliation of cash book, bank accounts.	David Dickinson	Claire Symonds	30 June 2018	Reviewed July 2017 - controls ongoing

2 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Poor stakeholder engagement	Poor communication with stakeholders giving rise to disaffection and actions against Council	Finance		January 2017

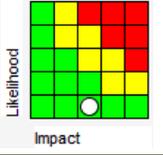
Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Poor stakeholder engagement and giving rise to disaffection and actions against Council	Annual Newsletter on Pension Fund, updates to any changes to scheme Website, presentations. Employer meetings, communications strategy AGM. Pension Specific Website. Increase in FTE.	David Dickinson, Justine Spring	Claire Symonds	30 June 2018	Reviewed July 2017 - ongoing

3 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Reliance on External Systems	Reliance on external systems in all aspects of Pensions which includes Lloyds, State Street, Fund Managers, Heywood, Logotech. Failure of systems could result in significant issues.	Finance		Updated April 2017 - risk merged with several separate risks which dealt with risks to individual systems. Systems failure impacts all areas of Pensions.

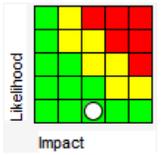
Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
BCP and manual processes	BCP includes use of manual process in emergency, backing up of records, working from home etc. The administration is provided through a hosted environment with a number of disaster recovery options.	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017

4 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Recruitment and retention of experienced Treasury and Pensions staff	The Authority is unable to recruit or retain experienced or suitably qualified staff because the salaries offered are not competitive, the working environment is unattractive or the authority has a bad reputation as an employer.	Finance		Reviewed April 2017 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Continuity of team and ability to cover different roles plus appropriate pay levels	Ensure continuity by having other members of the team able to cover essential functions. Benchmarking of salaries for the section both against other local authorities and private sector.	David Dickinson Justine Spring	Claire Symonds	30 June 2018	April 2017 - ongoing with controls in place
Detailed policies and procedures in place to enable others to take on key tasks	Ensure policies and procedure notes which enable others to take on key roles. Involvement different team members to ensure specialist knowledge not confined to a few individuals	David Dickinson Justine Spring	Claire Symonds	30 June 2018	April 2017 ongoing with controls in place

5 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Pension Overpayments	Pension Overpayments arising because of non-notification of death, re-employment, or ceasing education. This has financial and reputational consequences.	Finance		Reviewed April 2017 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Pension Fraud: NFI & Tell Us Once	Management of NFI matches and follow up. Checks through other companies that carry out data checks. A tracing agent appointed to run quarterly reports on members to ensure the pension fund database is up to date and prevent overpayments of pensions.	David Dickinson Justine Spring	Claire Symonds	30 June 2018	Reviewed April 2017 - ongoing

6 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Management of Third Party Contracts – lack of control could result in financial and reputational risks	Pensions manage in excess of 20 external contracts, which carry significant financial and reputational risks if not managed appropriately -for example leading to higher costs or legal challenges,	Finance		Reviewed April 2017 - ongoing

7 Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Contract Monitoring and Service Level Agreements	Regular monitoring of key contracts, including performance monitoring, service level agreements, reviewing internal controls reports	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017
Market Testing of contracts and benchmarking	Market testing of contracts through procurement exercises and/or benchmarking of costs regularly	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017
Market Intelligence gathering	Regular reviews of developments in the market place to ensure the section maintains up to date knowledge and can act on market intelligence such as changes to financial standing	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017

8 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Increased Longevity	Pensioners living longer, drawing pensions for longer than accounted for within the funding position leading to increasing liabilities giving rise to higher costs and major financial implications. Longevity Risk.	Finance		Reviewed April 2017 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Monitoring of Pension Fund position	Controls in place to monitor developments with Fund Actuary and Triennial valuations, targeting increased funding level to manage increased longevity. A flight path structure will be developed and implemented during the year to allow opportunities in funding level to be acted on.	David Dickinson Justine Spring	Claire Symonds	30 June 2018	Updated April 2017
Raising retirement ages to match increasing longevity	Scheme retirement age of State Pension Age changes Retirement and a linking of future increases in longevity with increasing retirement age, then it would be possible to downgrade this risk rating.	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017
Fund profiling to monitor specific experience	Club Vita membership to annually monitor the LBBB specific fund longevity profile	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017

9 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Asset/Liability mismatch	Assets and liabilities impacted by investment performance. Assets could fail to increase at the same rate as liabilities giving rise to a larger deficit and therefore	Finance		Reviewed April 2017 - Risk likelihood has increased slightly as this has actually happened, and otherwise the risk is ongoing

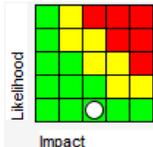
	increased cost to the Pension Fund			
--	------------------------------------	--	--	--

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Asset allocation reviews	Controls in place to monitor assets and liabilities of the pension fund and to review asset allocation on a regular basis to ensure it remains appropriate.	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Use of external advisers	Actuarial and investment advisor advise the Fund on how to manage the asset/liability mismatch	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Strategic goal Setting	Set strategic goals to achieve full funding, set targets to make changes to the assets when appropriate.	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing

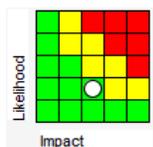
10 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Investment Performance	Poor investment performance either as a result of the types of assets invested in or performance of individual fund managers.	Finance		Jan 2016 - Risk reviewed and ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Medium Term Financial Planning	MFTP / Budget reflects any potential changes arising (or predicted to arise) from the actuarial valuations.	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Set aside reserves	Rebuilding Pensions reserve to buffer against future valuations variations.	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Performance Monitoring	Regular monitoring of asset allocation, monitoring of investment performance of fund managers to ensure both are on target to achieve the targeted returns.	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Appropriate levels of knowledge and skills to make decisions	Use of external advisers to assist in making investment decisions and ensuring that decision takers understand the investments of the fund	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Derisking of Fund when appropriate	At various staged the Pension Fund will be in a better funding position and a strategy is in place to allow the Fund to take advantage of these opportunities when they arise.	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing

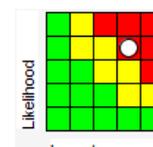
11 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
---------------	---------------------	-------------	---------------------	--------------------

Poor Membership Data	Poor administration by the Pension Fund, employers and payroll providers participating in the Fund giving rise to inaccurate data – causing financial, reputational risks, actuary unable to set contribution rates, higher contribution rates, member dissatisfaction, inaccurate benefit statements produced, overpayment etc	Finance		Reviewed April 2017 - ongoing
----------------------	---	---------	---	-------------------------------

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Monitoring of membership data	Controls – annual monitoring of membership records, valuation checks, external data validations	David Dickinson Justine Spring	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Contributions monitoring	Monthly monitoring of contributions to ensure that employers paying across correct contributions along with membership data being supplied	David Dickinson Justine Spring	Claire Symonds	30 June 2018	Updated April 2017 - ongoing

12 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Discretionary Policies	Regulations allow the Pension Fund and employers certain areas where they are able to exercise discretion. Risk is where policies are too generous or not robust enough leaving the Pension Fund and employers exposed to higher costs and reputational risks	Finance		Reviewed April 2017 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Discretionary Policies in place	Controls – Agreed policies and procedures to control such risks.	David Dickinson Justine Spring	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Awareness of employers	Ensuring that employers are aware of the additional costs that could arise from the exercise of their discretions or lack of policy.	David Dickinson Justine Spring	Claire Symonds	30 June 2018	Updated April 2017 - ongoing

13 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Regulatory Risks	Regulatory Risks encompass both compliance with existing legislation and regulatory changes – this particularly affects LGPS 2014 changes, pension auto-enrolment and Jackson reforms for insurance	Finance		Reviewed April 2017 - ongoing. This is happening and the new demands of auto enrolment promise to have a significant impact which needs to be managed carefully.

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
---------------	---------------------	---------------------	---------	----------	-----------------------

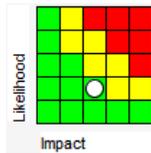
Regulatory Changes – monitoring developments and responding to changes	Monitor proposed changes and respond to consultations to influence outcome. Amend systems, processes to ensure compliance, use of specialist advisors to prepare for anticipated changes	David Dickinson Justine Spring	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Compliance with regulation policies	Ensure processes and policies in place to meet regulatory compliance	David Dickinson Justine Spring	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Compliance with regulation knowledge and skills	Ensure adequate training and specialist knowledge and skills for both staff and Members charged with governance	David Dickinson Justine Spring	Claire Symonds	30 June 2018	Updated April 2017 - ongoing

14 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Admission/Scheduled Body failures or deficits on termination	Risk employer goes into default, deficit on termination, change of status, financial risk	Finance		Updated April 2017 - ongoing

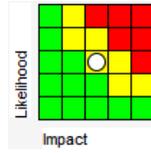
Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Admission/Scheduled Body failures or deficits on termination	Controls – valuation and Intervaluation monitoring, monitoring of contributions, employer covenant check, putting bonds/guarantees in place for admission bodies. Ensure funding levels remain high for individual employers.	David Dickinson Justine Spring	Claire Symonds	30 June 2018	Updated April 2017 - ongoing

15 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Pension Administration Risk	Risks arising from administration of pensions by employers, the administering authority and the pension administrator. Poor administration could lead to incorrect pension payments, financial and reputational damage	Finance		Updated April 2017 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Clear policy and procedures for the administration of pensions	Ensuring there are detailed policies and procedures for all parties involved in administering the pension scheme – Pension Administration Strategy	David Dickinson Justine Spring	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Monitoring of Performance	Benchmarking of performance against other authorities	David Dickinson Justine Spring	Claire Symonds	30 June 2018	Updated April 2017 - ongoing

16 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Pensions- Lack of adequate professional advice on strategies, projects and decisions	Decisions made in respect of Pensions can have a major financial impact on the Council and Pension Fund. Lack of adequate or inappropriate professional advice on strategies, projects and decisions could give rise to financial and reputational risks.	Finance		Updated April 2017 - ongoing

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Monitoring of advice	Controls – monitoring of advice received, risk assessment for procurements, Committee review of recommendations. Also ensure there is a good level of 'in-house expertise'.	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Market intelligence gathering	Monitoring wider developments and ensuring that officers and Members are kept informed. Wider networking and collaboration with other authorities where appropriate to ensure best practice.	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing

17 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Failure to manage costs	Failure to manage the costs of running the various services within Treasury and Pensions would give rise to significant additional financial costs for the Council along with reputational risks of poor value for money.	Finance		Reviewed Jan 14 - upgrade due to potential additional costs arising from regulatory changes LGPS 2016, Auto-Enrolment

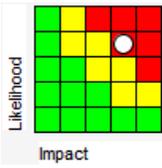
Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Budget Monitoring	Controls budget monitoring, performance fees, monthly budget monitoring, financial intelligence, etc	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Benchmarking	Benchmarking costs with other authorities to ensure costs for LBBB are not disproportionate	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Market Testing	Regular market testing of external costs which includes regular procurement exercises, assessing the market place for both pensions and insurance costs	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Frameworks/ Collaborative Working	Consider the use of Framework Agreements and other joint working where appropriate to control costs and to work with other authorities to deliver value for money and efficiency savings	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing

18 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
---------------	---------------------	-------------	---------------------	--------------------

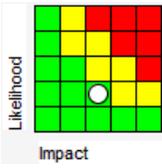
Pension Funding Risk	The fund is unable to meet its liabilities, due to a mismatch of assets/liabilities. The Funding position as at March 2017 showed 78% funding position. Further deterioration of the funding position from poor asset returns or increasing liabilities could result in the Council and other employers being required to make significant additional employer contributions.	Finance		Reviewed Jan 2016
----------------------	---	---------	--	-------------------

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Medium Term Financial Planning	MTFP / Budget reflects any potential changes arising (or predicted to arise) from the actuarial valuations. Rebuilding Pensions reserve to buffer against future valuations variations. The current financial strategy ensures that the base budget anticipates changes to contribution levels.	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Pens - Valuation Monitoring	Triennial Valuation assesses the funding position, Intervaluation monitoring ensures that movements in the Funding position can be assessed and strategies to manage any deterioration are put in place.	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Identifying the external risk factors that affect the funding position	Identifying the various risk factors, asset/liability, investment, longevity, interest rates, inflation, liquidity, etc and how the interaction of these impacts on the funding position and adapting the strategy and business plans to manage these risk where feasible.	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Knowledge and Skills	Ensuring those charged with governance of the Fund and for managing the day to day operations have the requisite knowledge and skills to make informed decisions when managing the funding position	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Cash flow Monitoring	Quarterly monitoring of Pension Fund cashflows to ensure that there is sufficient cash inflows from contributions and income to meet the cash outflows from benefit and cost payments. This will also provide early warning of potential cashflow mismatch and possible changes to investment strategy. Longer term cash flow monitoring in conjunction with the Fund Actuary to establish trigger points for the Fund becoming cashflow negative.	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing

19 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
---------------	---------------------	-------------	---------------------	--------------------

Auto Enrolment Risk	Workplace Pensions or Auto-Enrolment. LBBB staging date was 01/04/2016 (with transitional arrangements pushing back full implementation to October 2017). Risks include increased costs for employers, failure to implement, lack of preparation, failure to communicate, inability to manage auto-enrol process and have adequate monitoring in place. Significant financial (including Regulator Fines) and reputational risks	Finance		Risk Reviewed May 2017.
---------------------	--	---------	---	-------------------------

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Auto Enrolment Risk Communications	Use of different forms of communications to reach wider possible audience to understand what A-E means for individuals and employers within the Pension Fund. Use of individual letters, presentations, internet, etc. Communications strategy to feed into project plan	Justine Spring, David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Auto Enrolment Risk System Enhancements	Review of existing systems both payroll and pension to ensure that they are able to cope with the implementation of A-E and to ensure that they are adequate to cope with the ongoing monitoring requirements.	Justine Spring, David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Auto Enrolment Risk Monitoring	Monthly monitoring of A-E to ensure all new employees are auto-enrolled and to ensure that any existing employees who were previously not eligible or who had previously opted out are auto-enrolled should their circumstances change. Use of payroll/pension to ensure compliance with legislation.	Justine Spring, David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing

20 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Governance Risk	Governance is important in Pension Fund as it carries significant financial and reputational risks. It is therefore crucial that those charged with governance understand the full implications of the decisions which are being taken in these areas. Membership turnover on Committees poses risks due to lack of understanding of the responsibilities.	Finance		Risk added January 2016

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Governance Risk A – Knowledge and Skills Training Programme	Training programme for Committee Members to ensure that they have the requisite knowledge and skills to be in a position to question and understand the agenda and recommendations put	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing

	before them to make high level strategic decisions.				
Governance Risk B – Assessment	Committees to undertake assessment to ensure that their level of understanding is adequate for the decisions being made.	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Governance Risk C – S161 Responsibilities	CIPFA have issued a Code of Practice on the Knowledge and Skills Framework for the Pension Fund and the Section 151 Officer has responsibility for the implementation of its requirements. The COO will ensure that the Code is implemented and that a policy statement is included in the Annual Report & Accounts	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Governance Risk D – Succession Planning for Panel	Succession planning to ensure some continuity of Membership and the introduction of substitute members with access to suitable training will help to ensure that the knowledge base is maintained within Committees.	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing

21 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Procurement Risk	Treasury and Pensions is heavily reliant on the use of external contractors in all areas. All the contracts have to be tendered on a regular basis which brings procurement risks in terms of both timetables for procurement (often several procurements having to take place at the same time) and potential challenges to procurements.	Finance		Risk created Jan 2016

Control Title	Control Description	Responsible Officer	Manager	Due Date	Control - Latest Note
Ensuring adequate resources	The Council will look to use external advisers to supplement internal resources when undertaking procurement exercises.	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Timing of Procurements	Where feasible, procurement exercises will be spread across different time periods, although this is not always feasible.	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Collaborate with other authorities	Where the timing and scope of procurement exercises are likely to coincide with other authorities and where practical to do, joint exercises including Frameworks will be undertaken.	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing

22 Risk Title	Description of Risk	Directorate	Current Risk Matrix	Risk - Latest Note
Internal Fraud within Team	Treasury and Pensions is involved in the management of large scale financial resources on behalf of the Council and there is a potential risk that the area could be subject to internal fraud leading to significant financial and reputational risks	Finance		Risk Reviewed April 2017

<b>Control Title</b>	<b>Control Description</b>	<b>Responsible Officer</b>	<b>Manager</b>	<b>Due Date</b>	<b>Control - Latest Note</b>
Internal Fraud A – Policies and Procedures	Detailed policies and procedures and internal controls to ensure segregation of duties for key roles	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Internal Fraud B – Internal Audit	Treasury and Pensions is subject to internal audit scrutiny on an annual basis with different areas being tested to ensure compliance.	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing
Internal Fraud C – External Audit	All aspects of the work of Treasury and Pensions are subject to annual external audit covered by the audit of the Financial Statements with the Pension Fund also being subject to a separate audit opinion	David Dickinson	Claire Symonds	30 June 2018	Updated April 2017 - ongoing

**Appendix 7: Pension Board Terms of Reference**



**Pension Board  
Terms of Reference**

# **London Borough of Barking and Dagenham Pension Board Terms of Reference**

## **1. Introduction**

- 1.1 This document sets out the terms of reference of the Local Pension Board (“the Board”) of The London Borough of Barking and Dagenham (the 'Administering Authority') a scheme manager as defined under Section 4 of the Public Service Pensions Act 2013. The Board is established in accordance with Section 5 of that Act and under regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended).
- 1.2 The Board is established by the Administering Authority and operates independently of the Pension Panel. Relevant information about its creation and operation are contained in these Terms of Reference (“ToR”).
- 1.3 The Board is not a committee constituted under Section 101 of the Local Government Act 1972 and therefore no general duties, responsibilities or powers assigned to such committees or to any sub-committees or officers under the constitution, standing orders or scheme of delegation of the Administering Authority apply to the Board unless expressly included in this document.
- 1.4 Except where approval has been granted under regulation 106(2) of the Regulations the Board shall be constituted separately from any committee or sub-committee constituted under Section 101 of the Local Government Act 1972 with delegated authority to execute the function of the Administering Authority.
- 1.5 The Board is not a decision making body in relation to the management of the Pension Fund (“the Fund”). The Fund’s management powers and responsibilities will remain delegated to the Pension Panel (“the Panel”). The Board will exercise its powers and duties in accordance with the law and this ToR.

## **2. Role of the Pension Board**

- 2.1 The role of the Board is defined by regulation 106 (1) of the LGPS regulations as:
  - 1) to secure compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme and requirements imposed in relation to the LGPS by the Pensions Regulator (“the PR”);
  - 2) to ensure the effective and efficient governance and administration of the Fund.
- 2.2 The Council recognises that the Board’s main role will be that of having oversight of whether the aims and objectives outlined within the Fund's Governance and Administration strategies are being achieved; and having regard to any overriding

requirements included within guidance from DCLG, and the Scheme Advisory Board.

2.3 The Board will ensure that in performing their role it is done effectively and efficiently and complies with relevant legislation. In addition the Board shall have due regard for the Code of Practice on the governance and administration of LGPSs issued by the PR and any other relevant statutory or nonstatutory guidance.

2.4 The Board 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 (planning, performance monitoring & risk management); and

**3. Decisions:** Does the Fund have effective decision making (governance structure, behaviour and Pension Skills and Knowledge and training).

2.5 The Board will review the “Direction” in June and the “Delivery and Decisions” in March.

2.6 The Board must provide minutes of each meeting to the following Panel and may make reports and recommendations to the Panel insofar as they relate to the role of the Board. Any such reports or recommendations must be provided at least 15 working days in advance of the next Panel to the Chief Operating Officer (“the COO”).

2.7 Where the Board considers that a matter brought to the attention of the Panel and the COO has not been acted upon or resolved to their satisfaction, the Board will provide a report to the next appropriate Assembly.

2.8 Establishment

The Board was established on 31 March 2015.

### **3. Composition of the Board and Appointments**

#### **3.1 Composition**

The Board will consist of up to six members and be constituted as follows (substitutes for the Employer or Scheme Member Representatives are not permitted). There shall be an equal number of Member and Employer Representatives.

- i. Up to three Employer Representatives; and
- ii. Up to three Scheme Member Representatives.

### 3.2 Eligibility and selection criteria

- i. Three Employer Representatives: At least one of the employer representatives must be an employee of the Council. The second employer representative will be from one of the Fund's scheduled bodies.
- ii. Three Scheme Member Representatives: Representatives would preferably be members of the Fund (active, deferred or pensioner). Where the member representative is not a member of the Fund, they must have the requisite knowledge and skills to be able to represent the interests of the scheme members
- iii. The COO will define and keep under review any further eligibility and/or selection criteria that will apply to Board members.

### 3.3 Appointment of Members

The COO will manage the appointment process. Initial Board members will be direct appointments from Fund's current observers, who will fulfil the role of the two employee representatives and one employer representative. A representative from the Council's Legal department will also be directly appointed by the COO and will be the Council representative. The process to select replacement Board members is as set out below:

1. One Council Employer Representative: This will be a direct appointment by the COO.
2. Two other Employer Representatives: All the Fund's scheduled body employers will be invited to nominate individuals to represent employers on the Pension Board.
3. Two Member Representatives shall be appointed by the recognised trade unions representing employees who are scheme members of the Fund.
4. The third Member Representative shall initially be filled by the current Member Observer to the Pension Panel. Future appointments will be made following a nomination process open to all scheme members.
5. Nominations can be rejected where the individual does not appropriately meet the eligibility and/or selection criteria or where the number of nominations for any category of Board member merits a short-list being created for interviews.
6. Employer and Employee representatives should be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required.

7. The COO will agree the Board appointment process which may include, but is not restricted to, a formal interview. Where there are no appropriate nominations, the COO will take any other action consider appropriate, including leaving a position vacant.

#### 3.4 Notification of appointments

When appointments to the Board have been made the Council shall publish the name of Board members, the process followed in the appointment together with the way in which the appointments support the effective delivery of the purpose of the Board.

### **4. Board Requirements and Support**

#### 4.1 Term of Office

The Employer and Scheme Member Representatives are appointed for a period of three years from the date of establishment of the Board or the date of their appointment if later. This period may be extended to up to four years if agreed by the COO. An appointment will automatically cease if an employer requests their removal or an employee representative asks to be removed.

Any Board member may be re-appointed for further terms following an appointment process. Other than ceasing requesting to be removed (as set out above) a Board member may only be removed from office during the term of appointment by the COO or by unanimous agreement of the Board. Such reasons may include non-compliance with these ToR including inappropriate conduct, conflicts of interest, avoidance of training or low meeting attendance.

As term dates may not be exact due to the period of the appointment process, the term date may be extended by up to three months with the agreement of the COO.

#### 4.2 Quorum

All Board members are expected to regularly attend meetings. Records of attendance of all Members will be maintained and reported to the COO on an annual basis. A meeting of the Pension Board will be quorate when any three of the six Board members are present. A meeting that is / becomes at any point not quorate will cease immediately.

#### 4.3 Location and Timing

The Board will normally meet at an office of the Council. Meetings will take place at any point on a Monday to Friday if it is a normal working day apart from in exceptional circumstances and agreed by all Board members and other individuals expected to attend the Board meetings. The Board will meet twice a year. The Chair may call, or agree to call, additional meetings in exceptional circumstances.

Urgent business of the Board between meetings may, in exceptional circumstances, be conducted via telephone conferencing and e-mails. A summary of these discussions will be reported at the following Board.

#### 4.4 Receipt of advice and information

The Board will be supported in its role by officers and by advisors (where requested). In addition Board members will receive the final reports, minutes and agendas relating to all Panels and may attend Panels as observers (including during exempt items).

Insofar as it relates to the role of the Board, it may also request and receive information and reports from the Panel and examine decisions made or actions taken by the Panel. Any further requests for information and advice are subject to the approval of the COO who will be required to consider positively all reasonable requests in relation to the role of the Pension Board whilst being mindful of value for money.

#### 4.5 Administration

The COO will agree an agenda with the Chair of the Board prior to each Board meeting. The agenda and any papers for the Board will be issued at least 5 working days (where practicable) in advance of the meeting except in the case of matters of urgency. High level minutes of each meeting including all actions and agreements will be recorded and circulated to all Board members within 10 working days after the meeting. These minutes will be subject to formal agreement by the Chair taking consideration of comments by Board members (which may be done electronically between meetings).

The minutes may, at the discretion of the Chair, be edited to exclude items on the grounds that they would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998.

#### 4.6 Access to the Public and publication of Pension Board information

The following will be entitled to attend the entire Board meeting in an observer capacity:

- Any Members of the Panel;
- officers or advisers of the Council involved with the management of the Fund; or
- any other person requested to attend by the Chair of the Board or COO.

Any such attendees will be permitted to speak on request to the Chair. Members of the public may attend the public part of the meeting and papers will be made public in accordance with the Access to Information Procedure Rules in the Council's Constitution.

#### 4.7 Accountability

The Board will be collectively and individually accountable to the Council.

### 5. **Conflicts of Interest**

5.1 Each member is required to have due regard to the role of the Board as outlined in the ToR. All members are expected to work jointly in the best interests of the Fund, putting aside any individual views of any stakeholders. This should not prevent members from sharing their knowledge on how matters might impact specific stakeholders of the Fund. Board members are expected to declare, on appointment and at each meeting, any interests which may lead to conflicts of interest (COI) in the subject area or specific agenda of that Board. The Board's Chair must be satisfied that the Board is acting within:

- the Public Service Pension Act and the LGPS Regulations COI requirements;
- accordance with any Fund COI Policy that apply to the Board; and
- the spirit of any national guidance or code of practice in relation to Board COI.

5.2 The LBBDCouncillors' Code of Conduct shall apply in relation to the management of conflicts of interest of the Board with the exception of the registration of pecuniary interests and how interests are to be disclosed which are detailed below.

5.3 Each Board member must provide the Chair with such information as he or she reasonably requires for the purposes of demonstrating that there is no COI. The COO will ensure that the Chair does not have a COI. A COI is defined in the Public Service Pensions Act as:

*"in relation to a person, means a financial or other interest which is likely to prejudice the person's exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme)".*

### 6. **Chair and Deputy Chair**

6.1 The COO will appoint a Chair and a Deputy Chair from the Board membership. If the COO does not consider any of the members to have the requisite knowledge and skills for the role of Chair at the point in time, they may appoint an Independent Member to the Board who will also undertake the role of Chair to the Board. The

appointments to Chair and Deputy Chair will be reviewed at such times as considered appropriate by the COO.

## 6.2 The role of the Chair is to:

- Ensure all members of the Board show due respect for process, that all views are fully heard and considered and to determine that decisions are democratically made where consensus cannot be reached.
- Uphold and promote the purpose of the Board.
- Ensure Board members have the knowledge and skills as determined in the Fund's Training Policy and other guidance or legislation and maintain a training record.
- Agree the agenda and approve minutes for each Pension Board meeting.
- Maintain an attendance record and advise the Council on expenses to be paid.
- Write reports required by the Council on the work of the Board.
- Liaise with the COO on the requirements of the Board, including advanced notice for Council officers to attend and arranging dates and times of Board meetings.
- Other tasks that may be requested by the members of the Board, within the remit of the ToR and subject to agreement with the COO.
- Annually reviewing and reporting on the performance of the Board.

## 7. Voting

7.1 All Board members will have individual voting rights but it is expected the Board will, as far as possible, reach a consensus. Any other person attending a meeting will not have the right to vote. Voting results will be reported in the Board minutes.

## 8. Member Requirements

### 8.1 Knowledge and Skills

Under the requirements of the Pensions Act, Board members must be conversant with:

- a) the legislation and associated guidance of the LGPS; and
- b) any document recording policy about the administration of the LGPS adopted by the Fund.

In addition, a member of the Board must have knowledge and understanding of:

- The law relating to pensions, and
- Any other matters which are prescribed in regulations.

It is for Board members to be satisfied that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a Board member. In line with this requirement, Board members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date.

Board members are therefore required to:

- undertake a training needs analysis to identify gaps in competencies and knowledge;
- participate in training events (a record of relevant training will be maintained); and
- comply with the Fund's Training Policy insofar as it relates to Board members.

## 8.2 Standards of Conduct

The LBBD Councillors' Code of Conduct, as contained in the Council's Constitution, shall apply in relation to the standards of conduct of Board members as if they are Co-opted Members of the Council insofar as it can be reasonably considered to apply to the role of members of the Board and unless excluded elsewhere within these ToR.

## 8.3 Remuneration and Expenses

No allowances will be paid to Board members for attending meetings relating to Board business. Travel and all training costs will be funded by the Fund. Expenses must be reclaimed from the Fund through submitting claims, with all supporting evidence, to the following address:

Group Manager (Treasury and Pensions), Civic Centre, Dagenham, RM10 7BY

It is expected that employers of Representatives on the Pension Board will provide appropriate capacity to allow the Representative to perform this role within their normal working day without any reduction in pay.

All Board members will also be entitled to claim travel and subsistence allowances in accordance with the Members' Allowances Scheme in the Council's Constitution.

Expenses will only be paid if claimed by the representative and must be claimed within four weeks of each meeting or training session.

**9. Review, Interpretation and Publication of the ToR**

- 9.1 The ToR were agreed by the full Assembly of the London Borough of Barking and Dagenham on 24 February 2015. The Council will monitor and evaluate the operation of the Board and may review the ToR from time to time, with any changes made approved by the Assembly subject to the provisions of 9.2 below.
- 9.2 The Monitoring Officer is authorised to make minor amendments, consequential upon statutory or regulatory change, or to rectify errors, or to update arrangements consequential upon other external factors.
- 9.3 The ToR will be published in the Council's Constitution. The ToR will also form part of the Fund's Governance Policy and Compliance Statement which will be made available in accordance with the requirements of the LGPS Regulations.
- 9.4 These Terms of Reference were adopted by the Board on [27 July 2015].

.....  
**Signed on behalf of the Administering Authority**

.....  
**Signed on behalf of the Board**