

	<h2>Local Pension Board</h2> <h3>29th November 2017</h3>
Title	Decisions made by the Pensions Fund Committee
Report of	Assistant Chief Executive
Wards	n/a
Status	Public
Urgent	No
Key	No
Enclosures	None
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<h3>Summary</h3>
<p>Part of the role of the Pension Board is to ensure the effective governance of the Pension Fund. This role is not clearly defined but is deemed to include considering whether the decision making processes of the Committee are reasonable or appropriate i.e. soundly based, consider relevant information, are consistent with the objectives and policies of the Fund and are taken after considering appropriate advice. The paper considers recent decisions by the Pension Committee and summarises the rationale, the processes followed and the link with policy documents and regulations. The Board is asked to consider whether the decision making process is considered appropriate.</p>

<h3>Recommendations</h3>
<p>That the Local Pension Board considers the appropriateness of the procedures applied by the Pension Committee when reaching decisions at recent meetings.</p>

1. WHY THIS REPORT IS NEEDED

- 1.1 The Board's role is to assist the administering authority in securing compliance with scheme regulations and other legislation relating to the governance and administration of the scheme and ensuring the effective and efficient governance and administration of the LGPS for the LBB Pension Fund.
- 1.2 Part of the role is to review the decision making processes and ensure that these are soundly based, meet regulatory requirements and take into account advice received as appropriate. While it is not appropriate for the Board to seek to replace its own judgments for those of the Pension Committee, it is appropriate to review whether decisions have followed an appropriate process.
- 1.3 The paper will highlight decisions made at the last three Committee meetings. Previously, the Board received copies of the papers discussed by the Pension Committee.

Meeting 24th October 2017

Policy for Reporting Breaches of the Law

- 1.4 One of the gaps in procedures identified was the absence of a policy for reporting breaches of laws and regulations to the Pensions Regulator. The absence of a policy setting out responsible for reporting breaches, providing guidance on breaches that are reportable and notification procedures increased the likelihood of non-compliance.
- 1.5 The reporting policy provides for maintenance of a breaches register and disclosure of breaches to the Pensions Board.
- 1.6 The Pension Committee approved the policy and that it should be widely disseminated. An agenda item to consider the operation of the policy is included on the Board's work programme for April 2018.
- 1.7 Review of Strategic Asset Allocation
- 1.8 Following completion of the triennial actuarial review, the Pension Committee requested that the Scheme's investment advisor, Hyman Robertson, review the likelihood that the current strategy will be able to meet the funding objective, which is to have a 'reasonable' probability of being at least 100% funded after twenty years using the latest estimates of scheme liabilities.
- 1.9 Hymans Robertson undertook modelling that indicated the current investment strategy plus contribution plan has broadly a 2/3rd probability of meeting the funding objective. Two thirds probability is deemed acceptable by the Actuary to sign off the schedule of contributions for the next three years.

- 1.10 Hymans Robertson's modelling indicated that a modest increase in equities will increase by 2-3% the probability of achieving full funding. More significant increases in equities further increased the probability of full funding but widened the range of outcome – poorer outcomes become worse.
- 1.11 The Pension Committee agreed to:
- Increase the strategic equity allocation by 4% to 40% with 2% reductions to each of DGFs and corporate bonds.
 - Realisations to meet funding commitments will be drawn from the strategic bond fund, DGFs and corporate bonds in that order.
 - Training is provided on UK property, private equity and emerging market equities and opportunities to invest in these assets classes via the London CIV will be monitored.
 - To bring a report back to the next meeting with recommendations on further reduction of DGFs.
- 1.12 The second decision is to fund new commitments from the most overweight asset classes thereby rebalancing back to the strategic allocations set out in the Investment Strategy Statement.
- 1.13 The Fund does not currently invest in property or private equity. Hyman's analysis indicates that further reducing the allocation to diversified growth funds to enable investments in these asset classes and to increase the allocation to emerging market equities offered return and diversification benefits. The Pension Committee requested training on these asset classes and proposed that opportunities to invest through the London CIV to mitigate the high costs of assessing these asset classes.
- 1.14 There is an item on the agenda that further explores the procedures followed by the Pension Committee to agree an investment strategy statement and meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Revise the Investment Strategy Statement

- 1.15 Following the previous item, the Pension Committee agreed to revise the asset allocation table within the Investment Strategy Statement to reflect the revised target allocations and set upper limits on each asset class as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The ISS was drafted by Hymans Robertson and the revised table has been reviewed by Hymans. A copy of the ISS is included in the meeting papers.

Attendance by Investment Managers at Committee Meetings

- 1.16 The Committee receive quarterly reports from Hymans Robertson that comment on each investment mandate including performance against benchmark, the composition of the portfolio, any significant changes to the

team or organisation managing the assets and Hymans rating of the manager / fund.

- 1.17 The Committee recognised that periodic meetings with each of the investment managers together with feedback from officer meetings offered additional insights into likely future performance. They therefore asked that a suitable investment manager present to each Committee meeting.

Meeting 6th September 2017

Changes to European Investment Regulations - MiFID II

- 1.18 The Pension Fund is currently classified as a 'professional' investor under the Markets in Financial Instruments Directive. Revisions to the directive effective from January 2018 will change the status to 'retail' investor, but enable the Fund to elect to be treated as a professional investors. The Fund's investment managers and advisors are themselves regulated and limited to whom they can offer services. All have indicated that they would not be able to provide the current services if the Fund is reclassified as retail. The Committee recognising the additional protections offered to retail investors, determined that the procedures in place offered sufficient support when making investment decisions and that these protections could be waived to retain current access to markets and advice. The Pension Committee agreed that elections for professional status should be made with all current and future investment managers and advisors.

Approval of the Annual Accounts and Auditors Report

- 1.19 The Pension Committee are required to approve the Fund's annual accounts before the auditor can sign their report. The auditor attended the Committee meeting and discussed their findings with the Committee. Following discussion with the auditor, who indicated that they would give an unqualified opinion, the Committee approved the annual accounts.
- 1.20 The Committee requested that management investigate the issues identified in the auditor's report and that both the Committee and Board be updated on the findings.
- 1.21 The Auditor's report is included on the meeting agenda.

Issue of Regulatory Intervention

- 1.22 This issue was also discussed at the Board meeting held on 11th Sept 2017. The Committee considered the circumstances leading to the breach and the actions taken to improve procedures.

Meeting 18th July 2017

Update on Admitted Bodies Organisations

- 1.23 The focus of the report was the timely payment of contributions and the provision of bonds or guarantees from admitted employers. The report notes that contributions were being provided on a timely basis but that six employers had not provided bonds or suitable alternatives. The purpose of the bond is to protect the Fund and other employers should a participating employer default on their obligations to the fund.
- 1.24 The Local Government Pension Scheme Regulations 2013 (paragraph 6, Schedule 2, Part 3) provide for an assessment of the level of risk arising on premature termination of the provision of the service or assets by reason of insolvency, winding up or liquidation of the admission body. The assessment must be with the benefit of actuarial advice and, where the level of risk is such as to require it, the transferee admission body shall enter into an indemnity or bond to meet the level of risk identified or provide an adequate guarantor, such as a scheme employer.
- 1.25 The Committee requested that actions be taken on the missing bonds and if bonds could not be provided that alternative security is provided. A follow up report will be made to the February 2018 Committee meeting.

Admission of Link Administration Holding

- 1.26 The Pension Committee agreed to admit the above employer to the Scheme following their acquisition of the business of Capita Treasury Solutions. One member of staff will transfer to Link, who has a right to be admitted provided they meet the terms of the admission agreement.

Quarterly Performance Report to 31st March 2017

- 1.27 The report was presented by Hymans Robertson and noted by the Committee.

Draft Annual Accounts to 31st March 2017

- 1.28 The Committee noted that the annual accounts were not yet finalised and agreed to consider at an additional Committee meeting during September (see 1.19 above)

Approval of Funding Strategy Statement

The funding strategy statement ("FSS") identifies the funding objective for the scheme and sets out the policies and procedures in place to ensure that the funding objective is achieved. The Pension Fund is required by the Local Government Pension Scheme Regulations 2013 to maintain and review the FSS on a periodic basis, normally in conjunction with each triennial actuarial valuation. The content of the FSS is specified by actuarial guidance.

- 1.29 The FSS was drafted by the Scheme Actuary, Hymans Robertson. The Committee reviewed the content and were advised that it was consistent with

the processes and assumptions used in the 2016 triennial valuation. On this basis the FSS was approved.

- 1.30 The LGPS 2013 Regulations discuss consultation with such persons as it [the administering authority] considers appropriate. Normally this would be scheme employers. There is no mention of consultation in the Committee paper and in the absence of a scheme web site, no means for employers to access the FSS except on request. Permission to set up a scheme web site has been requested.
- 1.31 A discussion on funding objectives is included in the Board's future work programme for the 14 February 2018 meeting.

2. REASONS FOR RECOMMENDATIONS

- 2.1 The Local Pension Board may wish to review Pension Committee decision making procedures as part of its role on assisting the administering authority on ensuring good governance.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 N/A. The paper does not propose particular options.

4. POST DECISION IMPLEMENTATION

- 4.1 Recommendations from the Board will be communicated to the next Pension Committee meeting.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1 The Local Pension Board supports delivery of Council's strategic objectives and priorities as expressed through the Corporate Plan 2015-2020 by assisting in maintaining the integrity of the Pension Fund by monitoring the administration and compliance of the Fund.

5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)

- 5.2.1 None in the context of this report.

5.3 Social Value

- 5.3.1 There are no specific social value issues arising out of this report, however membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 Legal and Constitutional References

- 5.4.1 The LGPS Regulations 2013 place responsibility for the local administration of

pensions and other benefits under these Regulations on the administering authority, which is LB Barnet. The Local Government Pension Scheme Regulations 2015 requires the Council to establish a Pension Board, whose role is to assist the Council in securing compliance with legislation, regulation and best practice, including as set out in the Pension Regulator's Code of Practice.

5.4.2 This paper considers the governance arrangement of the LGPS pension scheme that form part of the remit of the Local Pension Board.

5.5 Risk Management

5.5.1 Risk management is central to the LGPS. LGPS pension funds are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

5.5.2 Good governance is essential to ensuring that risks are identified and managed.

5.6 Equalities and Diversity

5.6.1 There are no Equalities and Diversity issues arising from this report.

5.6.2 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

5.7 Consultation and Engagement

5.7.1 The paper is part of the process of co-ordinating the activities of the Pension Committee and Local Pension Board.

5.8 Insight

5.8.1 N/A.

6. BACKGROUND PAPERS

6.1 None