

	<h2>Local pension Board</h2> <h3>29 November 2017</h3>
<p style="text-align: right;">Title</p>	<p>Barnet Council Pension Fund – Compliance with investment regulations and guidance</p>
<p style="text-align: right;">Report of</p>	<p>Assistant Chief Executive</p>
<p style="text-align: right;">Wards</p>	<p>n/a</p>
<p style="text-align: right;">Status</p>	<p>Public</p>
<p style="text-align: right;">Urgent</p>	<p>No</p>
<p style="text-align: right;">Key</p>	<p>No</p>
<p style="text-align: right;">Enclosures</p>	<p>Appendix A – Investment Strategy Statement Appendix B – investment regulations checklist Appendix C – investment guidance checklist Appendix D – Hymans Robertson report</p>
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<h2>Summary</h2>
<p>Part of the role of the Local Pension Board is to: assist the administering authority to secure compliance with legislation and regulations, ensure strategies and policies are in place and maintained in line with regulations</p> <p>One of the key regulations governing the Pension Fund is the LGPS (Management and Investment of Funds) Regulations 2016 (“the regulations”). This report sets out the requirements of the regulations and guidance and identifies evidence to support compliance by the Pension Committee. There is a separate note from Hymans Robertson describing the processes and modelling undertaken to advise the Pension Committee on the investment strategy and the capabilities of investment managers.</p> <p>The report is designed to demonstrate to the Board that the governance arrangements in connections with the setting and implementation of investment policy are satisfactory.</p>

Recommendations

The Local Pension Board is invited to review the report and identify any recommendations or questions it wished to direct to the Pension Committee.

1. WHY THIS REPORT IS NEEDED

1.1 Part of the role of the Local Pension Board is to (a) assist the administering authority to secure compliance with legislation and regulations, and (b) ensure strategies and policies (including the investment strategy statement) are in place and maintained in line with regulations. One of the key regulations governing the Pension Fund is the LGPS (Management and Investment of Funds) Regulations 2016 (“the regulations”). This report sets out the requirements of the regulations and CLG guidance and identifies evidence to support compliance by the Pension Committee.

1.2 The report is divided into three sections

- I. A checklist to identify actions taken to meet the requirements of the regulations.
- II. A similar checklist focusing on the requirements of the CLG guidance for investment strategy statements (“the guidance”).
- III. A report from Hymans summarising the processes they have used to advise the Pension Committee on investment strategy and the suitability of investment products used by the fund.

1.3 Compliance with the investment regulations are demonstrated by:

The content of the Investment Strategy Statements (“ISS”)

The application of the ISS

The consideration of advice received from the investment consultant and actuary

1.4 A copy of the current ISS (revised October 2017) is attached at appendix A.

LGPS (Management and Investment of Funds) Regulations 2016

1.5 A summary of the requirements of the regulations is attached at appendix B. Against each provision is a note on compliance with additional commentary. The areas where compliance is not marked as yes are discussed below.

Item 7 (compliance with guidance) – this is discussed in appendix C below.

Item 7(5) (consultation) – the regulations do not specify who should be considered as appropriate for consultation. Although the ISS refers to consultation it does not say with whom. The Board and employers are normally considered appropriate. It is anticipated that the investment strategy

will be reviewed during Q1 of 2018 and the Committee will be advised to consider consultation before finalising any changes to the current ISS.

Item 7(6) (publication of the ISS) – there is a requirement that the ISS is published. This could be achieved by either placing on a fund web site or posting to employers (and scheme members). Neither option has been followed. Discussions are underway to establish a scheme web site on which the ISS could be posted. Any future changes to the ISS will be sent to scheme employers. Reference to the web site (when established) and the content will be included in future publications to scheme members.

Item 8 (directions by the Secretary of State) – no directions have been issued for Barnet.

CLG Guidance on Preparing and Maintaining an Investment Strategy Statement

- 1.6 The Dept. of Communities and Local Government issued revised guidance on preparing and maintaining an investment strategy statement July 2017. A note on the major provisions within the guidance and the extent of Barnet's compliance is attached (appendix C). Areas that require further explanation or where there are gaps in compliance are discussed below:

The asset allocation policy is consistent with own solvency target.

The expected return on assets and the risk being taken to achieve the target return are factors that the actuary will use to determine the contribution rate. When setting investment strategy, the Pension Committee use modelling from Hymans Robertson to identify the probability of achieving the funding objective and the implications of adverse outcomes. Increasing the return expectations can lead to more risk (poorer outcomes and increased employer contributions) and the selected strategy has to balance these considerations. Hymans note (appendix D) discussed the modelling and indicates the expectations from the current strategy.

Appetite for risk

The risk appetite is part of the modelling discussed above and in the Hymans report.

Notification to Scheme Advisory Board of changes in pooling plans

There have been no changes in plans that all assets than can be pooled will be when suitable opportunities are available.

Report to SAB on pooling progress

The SAB have requested this information from pools rather than individual funds.

Discussion of social investments

The guidance describes social investments as “Investments that deliver social impact as well as a financial return. In some cases, the social impact is simply in addition to the financial return; for these investments the positive social impact will always be compatible with the prudent approach. In other cases, some part of the financial return may be forgone in order to generate the social impact. These investments will also be compatible with the prudent approach providing administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.”

The ISS does not discuss social investments. The tone of the ISS is that financial return and risk are the main / only criteria. None of the investments in place could be considered as having a social impact. It is assumed that the Pension Committee would take into account local social benefit if the financial rewards were in line with other available opportunities. Should these types of investments be identified, they would be brought to the Committee’s attention.

Become signatories to the Stewardship Code.

The Stewardship Code is aimed at encouraging institutional investors to develop policies on how they will engage with the companies they invest, in particular exercise ownership rights, including voting. The Pension Committee has not signed up to the code although it has delegated the exercise of ownership rights to appointed investment managers. The Committee plans to discuss stewardship at its May 2018 meeting.

Disclosure of voting activity and appointment of proxy voting agent

The Annual Report of the pension fund does not disclose voting activity. This will be addressed in the 2017-18 annual report. With one equity manager, Legal & General, there is no need to employ a proxy voting agenda.

Hyman’s Robertson Report

- 1.7 A number of questions arising from the regulations and guidance on preparing an investment strategy statement are best addressed through a demonstration of the advice received from Hymans Robertson. These questions are:
- Is the asset allocation policy consistent with the solvency target?
 - Is there an explicit risk appetite and is funding risk being managed.
 - Does the Pension Committee take advice on the suitability of investment managers?
- 1.8 The appendix from Hymans Robertson seeks to demonstrate that the processes in place address the above points.

- 1.9 Pages 2 to 12 of the Hymans appendix demonstrate the modelling received by the Pension Committee when considering strategy. In particular slides 8 to 11 were presented to the Pension Committee at their last meeting. These graphs illustrate the probability of achieving full funding and the range of outcomes, in particular the poorer outcomes. In particular slide 11 indicates that the current strategy is a good balance of ensuring a reasonable prospect of achieving full funding and limiting the poorer outcomes. The important point is that the Committee is able to apply its judgement when setting strategy knowing not only the expected outcome but the range of possible outcomes. The Committee receive similar support each time strategy is reviewed which is generally 2-3 years.
- 1.10 The remaining slides address investment manager capabilities. Each quarter the Pension Committee receive updated Hymans Robertson ratings for each of their investment manager. The latest ratings are shown on slide 18. Ratings are also provided when new investment managers are being appointed. Hyman's attend each Committee meeting and discuss their views on appointed fund managers, which is the basis for the Committees decision to appoint, retain or review an investment manager.
- 1.11 The current fund managers all have one of the top two ratings.

Conclusion

- 1.12 There are a number of gaps in compliance with the regulations and guidance that are mainly relating to consultation and disclosure. These can be readily addresses. The gaps relating to stewardship vote and including a voting report in the annual accounts will be addressed in 2018.

2. REASONS FOR RECOMMENDATIONS

- 2.1 The LGPS (Management and Investment of Funds) Regulations 2016 is an important part of the regulatory environment for pension schemes. Ensuring compliance and reviewing compliance monitoring procedures falls within the remit of the Pensions Committee.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 The various alternatives are discussed in the paper and the Hymans Robertson modelling.

4. POST DECISION IMPLEMENTATION

- 4.1 Recommendations and comments will be forwarded to the Pensions Committee.

5. IMPLICATIONS OF DECISION

- 5.1 **Corporate Priorities and Performance**

5.1.1 Good management of the Pension Fund will minimise the cost of providing benefits thus enabling funds to be directed to Council priorities.

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

5.2.1 There are no direct resources issues for the council however changes in the financial performance of the pension fund affects the pension fund deficit reflected in the Authority's accounts.

5.3 **Social Value**

5.3.1 The Public Services (Social Value) Act came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits.

5.3.2 Before they start the procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders.

5.3.3 The Act is a tool to help commissioners get more value for money out of procurement. It also encourages commissioners to talk to their local provider market or community to design better services, often finding new and innovative solutions to difficult problems.

5.3.4 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 (Amendment) 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 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 Where relevant, consultation and engagement is discussed in the paper.

5.8 Insight

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 Links to:

LGPS (Management and Investment of Funds) Regulations 2016

<https://www.lgpsregs.org/schemeregs/invregs2016/timeline.php>

Guidance on Preparing and Maintaining an Investment Strategy Statement

<https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement>

Stewardship Code

[https://www.frc.org.uk/getattachment/d67933f9-ca38-4233-b603-3d24b2f62c5f/UK-Stewardship-Code-\(September-2012\).pdf](https://www.frc.org.uk/getattachment/d67933f9-ca38-4233-b603-3d24b2f62c5f/UK-Stewardship-Code-(September-2012).pdf)