

Decision Maker: Pensions Investment Sub-Committee

Date: 13th February 2020

Decision Type: Non-Urgent Non-Executive Non-Key

Title: PENSION FUND INVESTMENT STRATEGY STATEMENT

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Chief Officer: Director of Finance

Ward: All

1. Reason for report

- 1.1 This report seeks approval of the new Investment Strategy Statement (ISS) for the Pension Fund as required under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, and a revised Funding Strategy Statement (FSS) to reflect the outcome of the 2019 actuarial valuation.
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2. RECOMMENDATIONS

2.1 The Pensions Investment Sub-Committee is asked to:

- (a) consider the Investment Strategy Statement included at Appendix 1 (to be circulated separately);**
- (b) approve the Funding Strategy Statement included at Appendix 2;**
- (c) agree that any final changes are undertaken by the Director of Finance with the agreement of the Chairman and Vice Chairman.**

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.
 2. BBB Priority: Excellent Council.
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Financial

1. Cost of proposal: No cost
 2. Ongoing costs: Recurring cost. Total administration costs estimated at £5.1m (includes fund manager/actuary/adviser fees, Liberata charge and officer time)
 3. Budget head/performance centre: Pension Fund
 4. Total current budget for this head: £43.9m expenditure (pensions, lump sums, etc); £56.8m income (contributions, investment income, etc); £1,141m total fund market value at 31st December 2019)
 5. Source of funding: Contributions to Pension Fund
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Staff

1. Number of staff (current and additional): 0.4 FTE
 2. If from existing staff resources, number of staff hours: c 14 hours per week
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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013, LGPS (Management and Investment of Funds) Regulations 2016
 2. Call-in: Call-in is not applicable.
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,140 current employees; 5,852 pensioners; 5,576 deferred pensioners as at 31st December 2019
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 Background

3.1.1 In November 2015, the Department for Communities and Local Government commenced a consultation on the proposed regulations governing the investments of LGPS Pension Funds. This resulted in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which came into force on 1st November 2016, and which revoke and replace the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

3.2 Investment Strategy Statement

3.2.1 The 2016 regulations require administering authorities to have published an Investment Strategy Statement (ISS) by 1st April 2017, and then to keep it under review and revised at least every three years.

3.2.2 The ISS must include the following:

- (a) A requirement to invest 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 measured 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 or 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 rights (including voting rights) attaching to investments.

3.2.3 The new regulations remove some of the requirements that were previously included in the Statement of Investment Principles to provide authorities more flexibility in securing a diversified investment strategy. This includes removing the requirement to report on compliance with the Myners principles, and limits (as a percentage of the Fund) on certain investment categories. It is proposed that these are retained, other than a limit restricting investments in unit trusts or OIECs as this could impact on any transfer to the London CIV, and are listed under 'Other restrictions imposed by the authority' within the ISS.

3.2.4 MJ Hudson Allenbridge is currently updating the ISS for the fund, to reflect the impact of the revised asset allocation strategy, as well as other relevant changes. The updated draft strategy was not available at the time of writing this report and will be circulated separately.

3.2.5 In accordance with the regulations, and subject to the addition of any retained investment limits above, the Pensions Investment Sub-Committee is asked to approve the ISS attached as Appendix 1.

3.2.6 Under the regulations, the ISS must be kept under review and revised from time to time, but at least every three years. The ISS is submitted for approval as part of the Pension Fund Annual Report along with the Funding Strategy Statement, Governance Policy Statement and Communications Policy Statement.

3.3 Other changes under the regulations

3.3.1 In addition to the requirement for an ISS, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 provide the Secretary of State for Communities and Local Government with powers to issue a direction if satisfied that an administering authority failed to act in accordance with the guidance. The requirements would help control Local Authorities not making investment decisions in the best interests of pension members. Directions may be made on the following areas:

- Make changes to the fund's investment strategy;
- Require investment of assets as specified by the Secretary of State;
- Transfer investment functions to another organisation;
- Require funds to comply with any specific instructions given by the Secretary of State in relation to investment functions.

3.3.2 The MHCLG Guidance on Preparing an ISS also reaffirms that "schemes should make the pursuit of a financial return their predominant concern" and should not pursue policies that are contrary to UK foreign policy or UK defence policy.

3.4 Funding Strategy Statement

3.4.1 The LGPS Regulations provide the statutory framework under which the Administering Authority is required to prepare and publish a Funding Strategy Statement (FSS) alongside each actuarial valuation. The Fund Actuary must have regard to the FSS as part of the actuarial valuation process.

3.4.2 The FSS must also be revised and published whenever there is a material change in either the policy set out in the FSS or the Investment Strategy Statement. Following the completion of the 2019 triennial valuation, the FSS has been updated and the Sub-Committee is asked to approve the revised FSS attached as Appendix 2.

3.5 Changes to the FSS

3.5.1 The FSS at Appendix 2 incorporates the following updates:

- Update to allow for the latest Regulations i.e. to reflect the introduction of Exit Credits which were introduced in 2018.
- Review of the discount rate – consideration has been given, taking into account the current and potential investment strategy, as to what the appropriate discount rate should be for the 2019 valuation. The discount rate is expressed as the "real" expected asset return above CPI. Following a period of strong investment returns, the outlook is now for lower returns in the future. Therefore, following discussions between the Actuary, Officers and Members, it will be proposed to reduce the expected level of real return above CPI for past service from CPI +2 % p.a. at the 2016 valuation to CPI+1.25% p.a., to maintain an appropriate level of prudence in the discount rate. It will also be proposed to reduce the discount rate for future service from CPI +2.65% p.a. at the 2016 valuation to CPI+2.25% p.a.
- Updates to the life expectancy assumptions following analysis performed on the Fund's membership. The analysis indicates that whilst life expectancy is still increasing, the rate of increase experienced in the short-term since the 2016 valuation was less than was built into the assumptions. This has been incorporated into the assumptions for the 2019

valuation along with an adjustment to the longer-term projection to reflect current views.

- The maximum period over which deficits will be recovered will be maintained at 12 years i.e. the same as the 2016 deficit recovery plan. This would apply to all employers, subject to covenant and affordability considerations, and has been incorporated into the assumptions. For those employers with a limited length of participation in the Fund, any surplus will be recovered over a 12 year period too.
- Updates to the FSS and the Fund policies included within it (e.g. admission and termination) to allow for the potential Regulation and guidance changes. The key changes which have been incorporated are as follows as indicated by drafting notes in certain places:
 - The Cost Management Process - the cost management process was set up by HM Treasury, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions. The outcomes of the cost management process were expected to be implemented from 1 April 2019. However, this has now been put on hold due to the McCloud case discussed below.
 - McCloud judgment - these are age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other public sector schemes). It is not known how these cases will affect the LGPS or the cost management process at this time and is almost certainly not going to be known by the time the valuation is signed off. The potential impact of McCloud/the cost management process will need to be quantified as reasonably as possible based on the information available. This is in line with the guidance from the Scheme Advisory Board.

The potential impact of the McCloud judgment on contribution outcomes will be communicated to employers as part of the consultation on the FSS to ensure that they are aware of the budget risk and are able to make provisions accordingly.

3.5.2 Further updates on the progress of these Regulatory issues will be provided to the Committee in due course.

3.6 Next Steps

3.6.1 The full draft FSS will be issued as part of the consultation with employers, which will begin shortly. Subject to the finalisation of the Regulations/guidance, the outcome of the consultation with the employers, the final FSS incorporating the final assumptions and policies (including any changes post consultation) will be agreed by the S151 officer and communicated thereafter to the Sub-Committee.

4. POLICY IMPLICATIONS

4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external

investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

- 5.1 There are no direct financial implications arising from the updates to the Investment Strategy Statement and Funding Strategy Statement.
- 5.2 Details of Pension Fund performance and position are set out in a report elsewhere on this agenda.

6. LEGAL IMPLICATIONS

- 6.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2013. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) set out the parameters for the investment of Pension Fund monies.

Non-Applicable Sections:	Personnel Implications, Impact on Vulnerable Adults and Children, Procurement Implications
Background Documents: (Access via Contact Officer)	Pension Fund Annual Report 2018/19, Pensions Investment Sub-Committee, 3rd December 2019 Investment Strategy Statement (Appendix 1 – to follow) Funding Strategy Statement (Appendix 2)