PENSIONS COMMITTEE

16 March 2022

Title: Administration and Governance Report	
Report of the Chief Operating Officer	
Public Report	**For Decision**
Wards Affected: None	**Key Decision:** No
Report Author: David Dickinson, Investment Fund Manager	**Contact Details:** Tel: 020 8227 2722 E-mail: david.dickinson@lbbd.gov.uk
Accountable Director: Philip Gregory, Chief Financial Officer	
Accountable Strategic Leadership Director: Claire Symonds, Acting Chief Executive	

Summary

This report provides Members with an update on any administration and governance changes that have occurred and the potential impact that these changes may have on the Pension Fund. The report also provides an update on the Fund's one year and three-year cashflow forecast and on the London Collective Investment Vehicle (LCIV) as the Fund moves towards more pooled investments.

Recommendations

The Committee is recommended to note:

i. Pension Fund Prepayment Options
ii. Note that a Compliance Statement was submitted to the Competition and Markets Authority on 5 January 2021
iii. that the Fund is cash flow positive
iv. Independent Advisor LGPS Update, including Appendix 1
v. the Fund's three-year budget for the period 1 April 2021 to 31 March 2024; and
vi. the London CIV Update

The Committee is recommended to agree:

i. That a prepayment is made of £20m on 1 April 2022

1. Introduction

1.1 It is best practice for Members to receive regular administration data and governance updates. This report covers four main areas including:

i. Pension Fund Prepayment Options
ii. Pension Fund Budget 1 April 2021 to 31 March 2024
iii. Cash flow to 31 December 2020
iv. Independent Advisor LGPS Update; and
v. London CIV update.

2. Pension Fund Prepayment Options

2.1 As part of the Council's savings options, it prepaid two years of pension contribution totalling £40m to the Pension Fund for 2021/22 and again for 2022/23. A prepayment of contributions is where a lump sum payment is made to the Pension Fund by the Council, and it is based on the likely employer contribution. During the year, the first-year prepayment is repaid in twelve equal amounts (i.e. £20m is repaid in twelve equal amounts), with the actual employer contributions paid each month to ensure that the correct contribution rates are paid.

2.2 For the prepayment, an amount is paid by the Pension Fund to the Council that equates to the discount rate. For 2021/22 to 2022/23 this equated to an effective interest rate of 4.0%. As at the 31 December 2021, this prepayment has increased in value by 12.0% and by 11.6% annualised over two years. The prepayment allowed the Fund to meet capital calls for Infrastructure and to fund Diversified Alternatives, without the need for the Fund to sell any assets to Fund these investments.

2.3 The table below shows the current asset allocation against the target and range. The Fund is currently fully invested and has a short-term borrowing position of approximately £19.2m with the Council.

Table 1: Current Asset Allocation

Asset Class	Current Position	Target	Variance	Range
Equities	57.7%	52%	5.7%	*50-60*
Diversified Growth	13.9%	15%	-1.1%	*14-18*
Infrastructure	6.6%	8%	-1.4%	*7-11*
Credit	4.8%	7%	-2.2%	*6-10*
Property	4.1%	5%	-0.9%	*4-7*
Diversified Alternatives	10.0%	9%	1.0%	*7-10*
Fixed Income	2.8%	4%	-1.2%	*3-5*
Cash	0.1%	0%	0.1%	*0-1*

2.4 If agreed, the £20m prepayment for 2022/23 will be used to reduce the overdrawn cash position of £20.0m.

2.5 It is recommended that a prepayment is made of £20m on 1 April 2022. This will take the total prepayment amount to £40m.

3. Pension Fund Budget 1 April 2021 to 31 March 2024

3.1 Table 1 provides Members with the Fund's three-year budget to 31 March 2024.

Table 1: Pension Fund Budget 1 April 2020 to 31 March 2023

Contributions	2021/22 Budget	2022/23 Budget	2023/24 Budget
Opening Market Value	**1,281,890**	**1,341,280**	**1,400,650**
Employee Contributions			
Council	7,700	7,700	7,700
Admitted bodies	640	620	600
Scheduled bodies	1,950	2,000	2,050
Employer Contributions			
Council	25,000	26,000	26,000
Admitted bodies	2,600	2,500	2,400
Scheduled bodies	7,700	7,750	7,800
Pension Strain	1,000	1,000	1,000
Transfers In	3,500	3,500	3,500
Total Member Income	**50,090**	**51,070**	**51,050**
Expenditure			
Pensions	-36,500	-37,500	-38,500
Lump Sums and Death Grants	-6,500	-6,500	-6,500
Transfers Out	-3,500	-3,500	-3,500
Administrative expenses	-700	-700	-700
Total Expenditure on members	**-47,200**	**-48,200**	**-49,200**
Net dealings with members	**2,890**	**2,870**	**1,850**
Returns on Investments			
Investment Income	11,000	11,000	11,000
Profit (losses)	50,000	50,000	50,000
Investment management expenses	-4,500	-4,500	-4,500
Net returns on investments	**56,500**	**56,500**	**56,500**
Net increase (decrease) in assets	**59,390**	**59,370**	**58,350**
Closing Market Value	**1,341,280**	**1,400,650**	**1,459,000**

3.2 The three-year budget shows a movement from members being employed by the Council to being funded by admitted bodies as staff move to the various subsidiary companies. The Council contribution will increase from 22.0% in 2021/22 to 23.0% in 2022/23. Admitted body contribution will initially increase, but as the admitted bodies are closed to new entries, their contributions will decrease over time.

3.3 Pension payments are forecast to increase due to an increase in the number of pensioners as well as to reflect a pension increase of 0.5% for 2021/22. An increase in management expenses is being forecasted in 2021/22 as asset values have increased thus increasing the expenses. Overall, the Fund is expected to be cashflow positive, although relatively marginally, for net dealings with members and also cashflow positive if investment income and management expenses are included.

4. Independent Advisor LGPS Update

4.1 This paper informs the Committee of some developments relating to the Local Government Pension Scheme (LGPS) since the last Update. The issues covered are:

1. Creation of Department for Levelling Up, Housing and Communities (DLUHC) and appointment of new Minister responsible for the LGPS
2. Levelling Up White Paper and the LGPS in England & Wales
3. LGPS Consultations and responses
4. Cost Control mechanism
5. Review of 2019 Actuarial Valuations by the Government Actuary

The paper approaches the above issues in the context of the LGPS in England & Wales as a whole rather than in terms of the Barking and Dagenham Fund in particular.

<u>1. Creation of DLUHC & appointment of new Minister responsible for the LGPS</u>

In mid-September 2021, the Prime Minister reorganised Government. This reorganisation included the creation of the **DLUHC** to replace the Ministry of Housing Communities and Local Government (MHCLG). The Rt Hon Michael Gove MP was appointed Secretary of State at the DLUHC in succession to Rt Hon Robert Jenrick MP who had been Secretary of State at MHCLG since July 2019. Luke Hall MP who had been the Minister at the MHCLG directly responsible for the LGPS since September 2020 left the Government in the September 2021 reorganisation. Other Ministerial appointments within the DLUHC were also made in mid-September 2021 but details of Ministerial portfolios were not immediately announced.

On 6 October 2021, the LGPS Scheme Advisory Board for England and Wales (SAB) stated on its website that *"We understand that Kemi Badenoch MP will be the new minister for Local Government and will therefore take up responsibility for the LGPS. We would expect that the change of minister would lead to some delays in the current workstream…"*

The responsibilities of Kemi Badenoch MP whose official title is Minister of State (Minister Levelling Up Communities) are extensive and extend far beyond the LGPS. Ms Badenoch's role includes Local Government policy, finance, and improvement in England; Supporting Families programme; Integrated Communities (including Faith engagement, English Language); Elections policy (including leading on the Elections Bill in the House of Commons).

2. Levelling Up White Paper and the LGPS in England & Wales

On 2 February 2022, the DLUHC (Department for Levelling Up Housing and Communities) issued a White Paper ***"Levelling Up the United Kingdom."*** The White Paper sets out the Government's ambition and plans in terms of "levelling up." To quote from the Prime Minister's foreword *"…To take the radical steps needed to make us more prosperous and more united by tackling the regional and local inequalities that unfairly hold back communities…this White Paper describes... The practical steps this government will take in everything from education to art to investment that will make this a better, fairer country for us all."*

The White Paper is very detailed and lengthy (the main document is 332 pages cover to cover and the Technical Annexe 54 pages). The Government sets out twelve ***"Levelling up Missions"*** which are summarised on pages 120 and 121. The Policy Programme to achieve levelling up is set out in detail in Chapter 3 (pages 159-243). Associated with the Mission "*Living Standards"* there is reference to the LGPS on pages 162 and 163 of the White Paper.

One paragraph on pages 162/163 and three paragraphs on page 163 include reference to the LGPS. The paragraph on pages 162/163 *states "There is huge potential for institutional investment to support levelling up, across infrastructure, housing, regeneration and SME finance. Institutional investors currently hold UK pension assets of over £3.5tn. Within that, the Local Government Pension Scheme (LGPS) has total investments of over £330bn, making it the largest pension scheme in the UK. Only a tiny fraction of these funds are currently allocated to local projects. If all LGPS funds were to allocate 5% to local investing, this would unlock £16bn in new investment."*

Consequently, on page 163 the White Paper includes a paragraph which states *"Infrastructure investment by the LGPS has grown from under £1bn in 2016 to £21bn in 2021. To build on this established capacity and expertise, and ensure that all LGPS* *funds play their full part, the UK Government is asking LGPS funds, working with the LGPS asset pools, to publish plans for increasing local investment, including setting an ambition of up to 5% of assets invested in projects which support local areas."*

On 2 February 2022, the day the White Paper was issued, the SAB posted a statement on its website. Given both the SAB has close links/contacts to/with the DLUHC and the actual content of the statement it should be carefully noted. The full text reads: *"Today the government published the Levelling Up whitepaper which includes references to LGPS funds having plans for up to 5% of assets to be allocated to projects which support local areas. We understand that in this context local refers to UK rather than local to a particular fund and that there will be no mandation beyond the requirement to have a plan. Further details will emerge over the period up to an expected summer consultation which we understand will also include the outstanding climate risk and reporting regulations and the pooling guidance."*

Therefore, in essence the White Paper merely contains an exhortation to the LGPS to invest in UK infrastructure including housing. The wording of the Whitepaper makes no suggestion of actually requiring LGPS Funds to increase *"local investment."* Rather the Whitepaper merely states *"… UK Government is asking* ***LGPS funds, working with the LGPS asset pools, to publish plans for increasing local investment****, including setting an ambition of up to 5% of assets invested in projects which support local areas."* This approach which requires only a plan which relates to the UK as a whole is in reality the only practical approach Government can take. Any attempt to direct mandatory investment would likely be contrary to Fiduciary Duty and public law duties and would, almost certainly, result in legal challenge(s) potentially including an application for Judicial review.

The wording of the White Paper is merely stating that LGPS Funds be asked to publish plans to increase investment in infrastructure and housing across the UK. LGPS Strategic Asset Allocations are, however, not driven by government exhortations but by LGPS funding/investment requirements influenced by factors such as funding levels, actuarial assumptions, risk/diversification, inflation and cashflow, existing allocations etc.

Recent years have, however, seen a trend towards greater LGPS investment in infrastructure (but not necessarily/always UK infrastructure) and housing. This will likely continue for strategic investment reasons rather than because of Government exhortation. In summary the White Paper, in itself, may therefore have little overall impact on the LGPS in England & Wales.

3. LGPS Consultations and Government responses

There has been a lack of Consultations and Government responses relating to the LGPS since the Update presented to the September 2021 meeting of the Pensions Committee. Not only has there been no statement from Government in relation to Consultations in respect of the major investment issues of TCFD (Task Force on Climate Related Financial Disclosures) reporting by the LGPS, and Investment Pooling but there has been silence on other significant outstanding issues.

These include the Good Governance in the LGPS project proposals which were submitted to Government by the Scheme Advisory Board in early 2021; the response on some matters (proposed lengthening of the Actuarial Valuation cycle from 3 to 4 years and no longer requiring some education employers to offer LGPS membership to employees) in the Consultation “Changes to the local valuation cycle and the management of employer risk” which closed on 31 July 2019; and the Consultation on “Fair Deal – Strengthening pension protection” which closed on 4 April 2019 and in respect of which a response has still not been published.

The expected Consultation to amend the LGPS Regulations to apply TCFD reporting to the LGPS is still awaited. As was stated in the September 2021 Update the Department for Work and Pensions (DWP) has consulted upon and issued final Regulations on TCFD reporting by private sector pension schemes. These do not apply to the LGPS and therefore it was expected that before the end of 2021 the DLUHC would issue a Consultation to amend the LGPS Regulations to apply TCFD reporting to individual LGPS Funds.

The Consultation on an updated framework for LGPS Investment Pooling remains outstanding. The (then) MHCLG issued a Consultation in January 2019 but subsequently withdrew this. In November 2020, the Government stated in writing (in “The Balance Sheet Review Report” issued by HM Treasury) that it would *“consult”* in 2021 *“on next steps”* to implement *“a strengthened framework for LGPS investment and pooling”* but this did not occur. Therefore, the mandate for Investment Pooling within the actual LGPS Regulations remains limited to one statement in the LGPS (Management and Investment of Funds) Regulations 2016. This is, that the Investment Strategy of an LGPS Fund must include *“the authority’s approach to pooling investments, including the use of collective investment vehicles and shared services.”* In reality the present position with Investment Pooling is therefore that while LGPS Funds need to demonstrate commitment to the principle, the actual pooling of particular assets is in essence ultimately voluntary.

The latest available indication, with any real provenance, as to when there may be progress in relation to a Consultation relating to any of the issues discussed above is contained in the SAB statement of 2 February 2022. This refers to “*…an expected summer consultation…”* covering Pooling, TCFD (climate risk and reporting regulations) and the LGPS issues in the Levelling Up White Paper.

An LGPS Consultation incorporating TCFD, Pooling and the White Paper proposals will be a major undertaking particularly given the potential legal issues around any attempt to make Pooling genuinely mandatory. Therefore, for the DLUHC to issue such a Consultation by summer 2022 would be an achievement in itself. Even if a Consultation were issued in the summer a period of at least 6 months for the implementation of any proposals could reasonably be anticipated. Therefore, 1 April 2023 or thereabouts would appear the likely earliest that any new Regulations and/or Guidance relating to Investment Pooling and TCFD reporting by LGPS Funds might become effective.

As stated in the LGPS Update to the September 2021 Committee meeting the Government confirmed, in May 2021, that the LGPS Regulations will be amended to remedy the existing Age Discrimination in the LGPS once primary legislation had been passed by Parliament. The Public Service Pensions and Judicial Offices Bill has now completed most of the stages in the Parliamentary process. The Bill has now passed the First Reading, Second Reading, Committee, Report, and Third Reading Stages in both the House of Lords and House of Commons. The Bill completed the Report and Third Reading Stage in the House of Commons on 22 February 2022 and given it originated in the House of Lords will now return there for consideration of amendments made by the Commons.

4. Cost Control Mechanism

On 4 October 2021, the Treasury announced its intention to amend the Cost Control mechanism of the major public service pension schemes, including the LGPS. This followed the publication of a report by the Government Actuary on 15 June 2021 and a consequent Treasury Consultation of 24 June to 19 August 2021. The Public Service Pensions Act 2013 introduced into the seven public service pension schemes, including the LGPS, a Cost Control mechanism to seek to ensure the cost of providing pensions is kept within a range of costs. This seeks to ensure a "fair" balance with regard to the cost of providing defined benefit public service pensions between scheme members and the taxpayer.

The objectives of the Cost Control mechanism were – to protect taxpayers from unforeseen risks, to maintain the value of pension schemes to the members, to provide stability to benefit levels in that the operation of the mechanism should only be triggered by *"extraordinary, unpredictable events."* The Cost control mechanism is primarily concerned with calculating the cost of providing benefits to employees of each of the major public service pension schemes.

The cost control mechanism is a form of risk sharing arrangement that assesses certain elements of the costs of the schemes. If the assessed cost has decreased/increased by more than 2% of pensionable pay compared to their original level, then member benefits/contributions are increased/reduced to bring the assessed costs back to the original level.

For the LGPS in England and Wales there are two cost control mechanisms: The employer cost cap (ECC) operated by HM Treasury, and the future service cost (FSC) as operated by the LGPS Scheme Advisory Board (SAB). Either process can result in changes to the Scheme design and/or employee contribution rates if the costs of the LGPS move sufficiently from a "target cost." In view of Government concerns that the ECC Cost Control mechanism was not operating in line with its original objectives and in particular, the intention that it would only be triggered by *"extraordinary, unpredictable events,"* the Chief Secretary to the Treasury requested the Government Actuary to conduct a review of this Cost Control mechanism.

On 15 June 2021, the final report of the Government Actuary's review of the cost control mechanism across the seven major public service pension schemes, including the LGPS, operated by HM Treasury, was published ("Cost control mechanism Government Actuary's review," Final report, 27 May 2021). Paragraph 1.17, on page 11, of the report confirmed that the review did not consider the separate cost control mechanism for the LGPS which is operated by the Scheme Advisory Board.

Following the publication of the Government Actuary's review the Treasury launched a Consultation on 24 June 2021 (which closed on 19 August 2021) entitled "Cost control mechanism consultation: Proposal to reform the mechanism." This Treasury Consultation included the statement (paragraph 5.1, page 16) *"The Government has carefully considered the analysis and recommendations contained in the GA's final report. Having reflected on this, the Government proposes making three changes to the cost control mechanism, all of which are in line with the GA's recommendations:"*

The three proposals may be summarised as:

- that the cost control mechanism only considers past and future service in the reformed (present) schemes and exclude consideration of legacy schemes

- widening the cost corridor from 2% to 3% to *“improve the stability of the mechanism”*

- *“introducing an ‘economic check’”* where there is a breach of the cost control mechanism to ensure broader long term economic conditions are considered before any breach is implemented

The LGPS Scheme Advisory Board for England and Wales (SAB) responded to this Consultation on 19 August 2021. This response expressed, in the specific context of the LGPS, concerns regarding all three proposals. Seven individual LGPS Funds also responded to the Consultation.

On 4 October 2021, the Treasury issued its response to the Consultation of 24 June to 19 August entitled “Public service pensions: Cost control mechanism consultation response.” This confirmed the Government’s intention to amend the Cost Control mechanism to consider only reformed schemes, introduce a 3% cost corridor, and introduce an “economic check.” The News section of the SAB website states (4 October 2021) *“Although not directly addressing the concerns of the LGPS the response does acknowledge them and commits to discussing with stakeholders appropriate ways to introduce these changes, how the E&W SAB cost management process can be adapted and how the principle of that process could be extended to the Scotland and NI schemes.”*

5. Review of 2019 Actuarial Valuations – Section 13 Report by the Government Actuary’s Department (GAD)

On 16 December 2021, the DLUHC published GAD report on the 2019 LGPS Actuarial Valuations. The main report is sixty pages long. There is also an Appendices paper of 62 pages and a 22-page Funding Analysis paper.

The GAD was appointed by the (then) MHCLG to report under Section 13 of the Public Service Pensions Act 2013 in respect of the 2019 Actuarial Valuations of the Funds in the Local Government Pension Scheme in England and Wales (LGPS). The ‘Overall Comments’ made by GAD on page 4 of the main report state, *“In aggregate the funding position of the LGPS has improved since 31 March 2016; and the scheme appears to be in a strong financial position…”* and specifically that since the 2016 Valuation across the LGPS in England and Wales as a whole *“The aggregate funding level on prudent local bases has improved from 85% to 98% (at 2019)”*

Section 13 requires GAD to report on whether the following aims were achieved:

- **Compliance:** whether a Fund’s Valuation is in accordance with the Scheme Regulations

- **Consistency:** whether the Fund’s Valuation has been carried out in a way which is not inconsistent with other Fund Valuations within the LGPS

- **Solvency:** whether the rate of Employer Contributions is set at an appropriate level to ensure the solvency of the Fund

- **Long term cost efficiency:** whether the rate of Employer Contributions is set at an appropriate level to ensure the long-term cost efficiency of the Scheme, as measured on an individual Fund basis

The first two issues are concerned primarily with the methods of the four Actuarial firms (Aon, Barnett Waddingham, Hymans Robertson, and Mercer) who undertake Actuarial Valuations for LGPS Funds.

The issues of Solvency and Long Term Cost Efficiency are Fund specific. In respect of **Solvency** and **Long term cost efficiency** GAD looked at a range of metrics (10 in all, with 5 each for Solvency and Long term cost efficiency) and then assigned a *"colour coded flag"* to each LGPS Fund in England and Wales for each metric. These range from Red to Amber to White to Green and are explained on page 12 of the main report. A Red flat indicated *"a material issue that may result in the aims of section 13 not being met."* It is extremely pleasing to note that there were no red flags assigned to any LGPS Fund in England and Wales. An Amber flag indicates *"a potential material issue…In isolation this would not usually contribute to a recommendation for remedial action in order to ensure solvency or long term cost efficiency."* Only four Funds across England and Wales (one English County and three in London) were Amber flagged. A White flag *"is an advisory flag that highlights a general issue but one which does not require an action in isolation."* A Green flag indicates *"that there are no material issues…"* The total lack of red flags and the fact that out of over 80 Funds examined only four were Amber flagged clearly indicates the overall robustness, based on the GAD analysis, of the approach to funding issues of the LGPS across England and Wales. Based on GAD analysis all LGPS Funds in England and Wales met the aims of **Solvency** and **Long term cost efficiency.**

The report on the 2019 Actuarial Valuations has been, overall, not unfavorably received by the Actuarial firms who support the LGPS. This is in contrast to their response to the report on the 2016 Actuarial Valuations which resulted in a joint letter which raised *"some material concerns"* regarding the detail of that report.

Briefly, the main findings of the GAD report on the 2019 Valuations were:

- **Compliance -** Fund valuations were compliant with relevant regulations.

- **Consistency –** Funds/Actuaries had adopted a consistent dashboard to aid stakeholders when comparing results for different Funds as recommended in GAD's report on the 2016 Valuations. However, differences in methodology and assumptions do not allow like for like comparisons. GAD were also concerned about what they consider to be *"particular inconsistencies in the way Academy conversions are carried out in different funds, which derive from different valuation approaches"* (Page 5 of the main report).

- **Solvency –** The size of Pension Funds has grown considerably more than local authority budgets over the three years to 31 March 2019. This, therefore, in GAD's view, presents greater risk going forward, despite the general improvement in Funding levels. Page 7 of the main report includes the statement *"Given that pension funding levels change it is not unlikely that a period of increased pension contributions may be required at some point in the future. If additional spending is required for pension contributions this may lead to a strain on local authority budgets…"*

- **Long term cost efficiency –** At page 51 of the main report GAD state *"Long term cost efficiency (LTCE) relates to not deferring payments too far into the future so that they affect future generations of taxpayers disproportionately."* GAD is clear in its report regarding its view of the need to consider the balance of cost between current and future taxpayers. GAD highlighted four individual Funds (three in London and the Royal County of Berkshire Fund) as raising potential concern in relation to long term cost efficiency; this is two less than in 2016. GAD also raises (pages 59 and 60 of the main report) the issue of the use by some Funds of Asset Transfers and Contingent Property Transfers from the Council (Administering Authority) to the Pension Fund. Whilst *"not commenting on the actions of any fund that holds such an asset"* the report raises a number of *"potential concerns"* regarding such arrangements and recommends *"the Scheme Advisory Board review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around any such transfers to ensure long term cost efficiency"*

The Appendices document includes detailed results and GAD analysis covering all LGPS Funds in England and Wales. The main report included 4 Recommendations which seek to promote:

1. Improved consistency in the approach to assessing emerging and existing key issues including Academy conversions and "McCloud" (Pg 5).

2. Ensuring deficit recovery plans can be demonstrated to be a continuation of the previous plan (Pg 8).

3. Continuing improvements in transparency through an expanded Valuation dashboard with additional information, provided by the Fund Actuaries (Pg 8).

4. Appropriate governance arrangements around asset transfer arrangements from local authorities to Pension Funds *"to achieve long term cost efficiency."* (Pg 60).

The GAD Section 13 Report for 2019 may be accessed at
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1040197/S13_final_report.pdf

The Appendices to the GAD Section 13 Report may be accessed at
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1040200/S13_Appendices.pdf

The Funding Analysis document to The GAD Section 13 Report for 2019 may be accessed at
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1040198/FAPaper2019_Final.pdf

5. Cash flow to 31 December 2021

5.1 Table 2 below provides Members with the Fund's Cash flow to 31 December 2021.

Table 2: Actual Pension Fund Cash Flow to 31 December 2021

	2021/22 Budget	2021/22 Forecast	Over / Under

	£000's	£000's	£000's
Contributions			
Employee Contributions			
Council	7,700	8,209	509
Admitted bodies	640	493	-147
Scheduled bodies	1,950	1,860	-90
Employer Contributions			
Council	25,000	26,695	1,695
Admitted bodies	2,600	2,090	-510
Scheduled bodies	7,700	7,392	-308
Pension Strain	1,000	800	-200
Transfers In	3,500	3,400	-100
Total Member Income	**50,090**	**50,939**	**849**
Expenditure			
Pensions	-36,500	-36,300	200
Lump Sums and Death Grants	-6,500	-6,700	-200
Payments to and on account of leavers	-3,500	-3,850	-350
Administrative expenses	-700	-700	0
Total Expenditure on members	**-47,200**	**-47,550**	**-350**
Net additions for dealings with members	**2,890**	**3,389**	**499**
Returns on Investments			
Investment Income	11,000	11,000	0
Profit (losses)	50,000	55,000	5,000
Investment management expenses	-4,500	-4,500	0
Net returns on investments	**56,500**	**61,500**	**5,000**
Net increase (decrease) in the net assets	**59,390**	**64,889**	**5,499**
Asset Values	**1,341,280**	**1,357,333**	**16,053**
Liabilities	**1,292,444**	**1,350,000**	**57,556**
Funding Level	**103.78%**	**100.54%**	**-3.24%**

5.2 The contributions into the Fund are £849k higher than the budget, although the expenditure is also £499k higher, mainly due to higher transfers out.

5.3 Most investment costs are incurred within the various pools the Fund invests in, as is the investment income, with little distributed directly to the Fund. The assets and liabilities are currently moving around significantly due to the uncertainty caused by the Covid and more recently the war in Ukraine. The approach taken by Barnett Waddingham does smooth out some of this volatility but it is likely that the Fund will end the year less than 100% funded (although the current forecast is 100.54% funded).

6. London Collective Investment Vehicle (LCIV) Update

6.1 The LCIV is the first fully authorised investment management company set up by Local Government. It aims to be the LGPS pool for London to enable Local Authorities to achieve their pooling requirements.

6.2 Update from the London CIV

In terms of assets under management, the value of LCIV's public market funds offered via the London CIV's Authorised Contractual Scheme (ACS) rose by 26%, from £10.8 billion to £13.9 billion, and the cumulative commitments raised into our private market funds increased by 74%, from £606 million to £2.0 billion by the end of 2021.

	30/09/2021	Market Move	31/12/2021
Active Investments	**£**	**£**	**£**
LCIV Global Alpha Growth Fund	332,756,931	207,681	332,964,612
LCIV Global Total Return Fund	111,241,951	1,430,410	112,672,361
LCIV Real Return Fund	82,595,244	3,085,052	85,680,296
Total	**526,594,126**	**4,723,143**	**531,317,269**

In their annual submission to the Department of Levelling Up, Housing and Communities (DLUHC) LCIV reported cumulative net savings of £33 million to LCIV's Client Funds for the first four years of operation to March 2021. As the value of pooled assets grow, LCIV expect the level of savings to increase.

Whilst LCIV continued to make progress in 2021, one of their ongoing challenges is to gain greater commitment/demand from seed investors at an early stage to overcome the difficulties LCIV face in securing attractive deals from investment managers. The Fund's contribution as seed investors is vital in enabling LCIV to attain greater negotiation leverage with the investment managers to secure better fee outcomes.

6.3 Q4 2021 Activity in Brief

During LCIV's Annual Strategy and Responsible Investment Conference in October 2021, Chief Executive Officer Mike O'Donnell, reflected on the progress made with the existing product range and the demand seen for the new funds LCIV launched in 2021, each of which were developed in partnership with Seed Investor Groups (SIGs). Chief Investment Officer (CIO), Jason Fletcher, presented at high-level strategic product roadmap, and Chief Operating Officer (COO), Brian Lee, presented LCIV's medium-term pooling plan based on responses to LCIV's annual survey.

LCIV have made significant strides towards the 6 priorities of Responsible Investment & Engagement Programme. LCIV were the first LGPS pool to announce a net zero strategy. LCIV's ambitious target to achieve net zero by 2040 is intended to reflect the ambitions of client Funds, recognising the fact that each will set targets with different timescales. By announcing LCIV's target, LCIV are not aiming to determine the net zero target for any of LCIV's Client Funds.

While setting the net zero target may prove to be the easier step, the challenge ahead will lie on creating an appropriate road map that will enable us to hit these targets. LCIV recognise that the decisions each Client Fund will take in respect to their strategic asset allocation will play a significant role on their ability to achieve this. As LCIV keep on developing its existing fund range in response to climate change commitments, LCIV consider the financial implications of climate related risks.

During Q4 2021, LCIV advanced in the process of further integrating Environmental, Social and Governance (ESG) factors to the strategy used by LCIV Global Bond Fund. Effective 1 November 2021, Hermes EOS became LCIV's partner in respect to stewardship and engagement activities effective as part of LCIV's engagement step. The role of Hermes EOS is to sit alongside the voting guidance LCIV receive as members of the Local Authority Pension Fund Forum (LAPFF). In terms of reporting, LCIV have been conducting a trial with one of LCIV's Client Funds to assess the carbon footprint in line with the Task Force on Climate Financial Disclosures (TCFD) for its entire investment portfolio, irrespective of those assets being pooled or not. Going forward LCIV are confident that LCIV will be able to offer this service to all LCIV's Client Funds, which will present an aggregate assessment of the entire investment portfolio, show relevant metrics, and enable each of the Pension Committees to work towards their net zero targets.

LCIV's primary focus remains on financial returns; therefore, conversations with investment managers to improve the sustainability credentials of LCIV's products need to sit alongside the appropriate level of financial return LCIV's Client Funds depend on to generate the acceptable funding level to pay pensions without further recourse to the taxpayer. LCIV's aim is to safeguard that LCIV's collective voice is heard in Responsible Investment debates whilst supporting LCIV's Client Funds to pool in line with their respective investment strategies.

LCIV were also pleased to be approved as an asset owner to the first list of signatories to the 2020 UK Stewardship Code over the last quarter, which is an achievement to be celebrated. In December, Jeff Houston of the Local Government Pension Scheme Advisory Board (SAB) was LCIV's guest at LCIV's Business Update, and he provided us with an update on LGPS pooling and discussed the role pools can play to invest in social capital and support the challenges of the financial impact climate change can cause. A recording of this session is available to you in LCIV's Client Portal. LCIV's fourth quarter Meet the Manager webinar was chaired by LCIV's Responsible Investment Manager Alison Lee and featured a discussion with Hermes EOS and their engagement capabilities.

6.4 Current Position

On 31 December 2021, the total assets deemed pooled by LCIV's Client Funds were £29.6 billion, of which £15.9 billion are in funds managed by the London CIV, being the ACS plus amounts committed to private market funds. Assets under management in LCIV's ACS stood at £13.9 billion. Over the fourth quarter, LCIV had £250 million of additional commitments from four new investors to the LCIV Private Debt Fund, bringing total commitments raised by LCIV's private market funds as of 31 December 2021 to £2.0 billion of which £744m had been drawn. The value of 'pooled' passive assets was £12.8 billion, with £9.5 billion managed by Legal and General Investment Management and £3.3 billion managed by BlackRock.

6.5 Fund Activity - ACS

During Q4 2021 LCIV had net flows of £1 million into the London CIV's ACS funds. Transactions included two investors seeding the Passive Equity Progressive Paris Aligned (PEPPA) Fund in early December with a total contribution of £540 million, new investors into the LCIV Global Bond Fund, LCIV Sustainable Equity Fund, and LCIV MAC Fund, positive net flows into the multi-asset LCIV Diversified Growth Fund and LCIV Absolute Return Fund due to rebalancing activity, and smaller negative net flows recorded for the LCIV Global Total Return Fund, LCIV Global Equity Fund, and LCIV Global Alpha Growth Fund.

Feedback from LCIV's regular catch-up calls with Pension Officers suggests that there are further opportunities for Client Funds to invest in LCIV's existing funds to meet their strategic asset allocation requirements. Looking ahead, LCIV are working towards the launch the LCIV Alternative Credit Fund at the end of January 2022, which will in turn allow us to introduce PIMCO's Diversified Income Strategy to the LCIV MAC Fund which is anticipated to be incorporated from February 2022.

6.6 Fund Activity - Private Market Funds

LCIV had a total of £420.5 million in drawdowns across all LCIV's private market funds over the quarter. The largest drawdowns were attributed to the LCIV Inflation Plus Fund and the LCIV Renewable Infrastructure Fund, which were respectively £132.4 million and £128.0 million.

On 30 September 2021, the LCIV Inflation Plus Fund held three assets in the education sector with total fund value of £35.4 million. During Q4 2021, LCIV have agreed terms to acquire a £158 million portfolio (net of tax and transaction costs) of real estate long income assets. The portfolio consists of 11 assets across a range of sectors including hotels, student accommodation and supermarkets. By year-end, eight properties transaction have been completed with an acquisition price of £97 million (net of transaction costs) and the remainder is anticipated to be completed by end of March 2022.

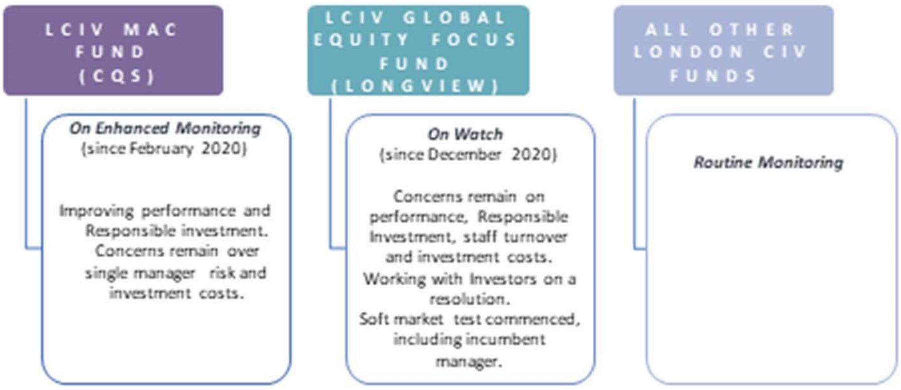
Separately, the Fund is also under offer on another student accommodation transaction of £22 million. LCIV are targeting to complete both transactions, totalling £189m (including costs), by the end of March 2022. This portfolio acquisition represents a unique opportunity for the Fund to deploy all the existing investor queue quickly and efficiently into a diverse portfolio of high quality, inflation linked long income assets, providing a platform for the continued strong performance and growth of the Fund. These acquisitions will create a diverse c.£217m portfolio of assets across 6 sectors and with an average investment grade credit rating of BBB+.

In October 2021, the LCIV Renewable Infrastructure Fund bought a single position in the BlackRock Renewable Income UK Fund that invests in a portfolio of 48 wind and solar projects across the UK. This investment allowed us to immediately deploy capital into a mature portfolio of renewable energy assets which is already generating cash, and therefore it is offering LCIV's Client Funds an immediate return on their investment.

For 2022, LCIV will focus on developing a property fund offering, recognising this could be a complex process and individual Client Funds will have different starting points and different requirements in terms of their strategic asset allocation.

6.7 Investment Manager Monitoring

Below is a summary of the status of the London CIV investment manager monitoring programme as of 31 December 2021:



Cost Transparency Initiative templates for all funds ran by the London CIV as at 31 March 2021 were shared on the Byhiras Portal.

6.8 Group Engagement

LCIV hosted seven group meetings over the quarter. The table below shows the types of meetings held:

Meeting Types	Quantity
Specific Pooling Opportunities	13
Catch-up Calls	12
Pension Committee Meetings	12
Preparation Meetings	7
Induction to the London CIV	1
Pooling Progression Strategy (PPS)	1
Total	46

Participation to LCIV's monthly Business Update and quarterly Meet the Manager webinars has improved significantly over last year, and LCIV note a greater attendance from Pension Chairs and Pension Committee Members. In December LCIV had representation from 75% of LCIV's Client Funds in addition to investment consultants and independent advisors.

LCIV will continue to host LCIV's monthly Business Update webinars via Microsoft Teams at 10am every third Thursday of the month. LCIV will be hosting a Workshop on Property Investments on 31 January 2021 and the next Seed Investor Group (SIG) discussion on Sterling Credit will be held on 1 February 2022. This SIG group will determine demand for us to move to Stage 2: Mandate Development of LCIV's Fund Launch Framework as LCIV work with interested investors to determine sufficient appetite to launch this product. If you wish to join us at any of these meetings, please contact your designated Client Relations Manager at clientservice@londonciv.og.uk.

6.9 Client Fund Meetings

Over Q4 2021 LCIV have recorded over 46 meetings/calls with LCIV's Client Funds. The table below shows the types of meetings held during Q4 2021:

Meeting Type	Quantity
Seed Investment Group (SIG)	2
Business Update (BU)	2
Investment Consultant Update	1
Independent Advisors Update	1
Meet the Manager (MTM)	1
Total	**7**

6.10 Pooling Strategy

Following approval by the London CIV Board during Q4 2021, LCIV are now working on the basis that a realistic pooling target is to achieve 71% pooled by 2025 instead of 75% by 2023. This figure is based on one-to-one pooling strategy meetings with LCIV's Client Funds and the responses to the annual survey submitted to the DLUHC). This new target also forms part of the basis for LCIV's Medium-Term Financial Strategy (MTFS) and Budget for 2022/23 on which LCIV are now monitoring progress and forecasting for the financial year ending in March 2022.

7. Consultation

7.1 Council's Pension Fund governance arrangements involve continuous dialogue and consultation between finance staff and external advisers. The Finance Director and the Fund's Chair have been informed of the commentary in this report.

7.2 With regard to the Investment Consultants Strategic Objectives Review, the Independent Advisor has been closely and specifically consulted. The closed Appendix to this report has been prepared based on a self-assessment prepared by the Funds Investment Consultant Hymans Robertson which was reviewed and scrutinised by the Independent Advisor as well as Fund Officers.

8. Financial Implications

Implications completed by: Philip Gregory, Finance Director

8.1 The Pension Fund is a statutory requirement to provide a defined benefit pension to scheme members. The management of the administration of benefits the Fund is supported and monitored by the Pension Board.

9. Legal Implications

Implications completed by: Dr. Paul Feild Senior Governance Solicitor

9.1 The Council operates the Local Government Pension Scheme which provides death and retirement benefits for all eligible employees of the Council and organisations which have admitted body status. There is a legal duty fiduciary to administer such funds soundly according to best principles balancing return on investment against risk and creating risk to call on the general fund in the event of deficits. With the returns of investments in Government Stock (Gilts) being very low they cannot be the primary investment. Therefore, to ensure an ability to meet the liability to pay beneficiaries the pension fund is actively managed to seek out the best investments. These investments are carried out by fund managers as set out in the report working with the Council's Officers and Members.

10. Other Implications

10.1 There are no other immediate implications arising from this report though the Public Service Pensions Act changes will have an impact on the short and long-term workload of the Pension Fund. This will continue to be monitored.

Background Papers Used in the Preparation of the Report:

Appendix 1: Section 13 Report re 2019 Actuarial Valuation Independent Advisors paper