

PENSIONS COMMITTEE

11 January 2023

Title: Administration and Governance Report	
Report of the Chief Operating Officer	
Public Report	For Decision
Wards Affected: None	Key Decision: No
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Accountable Director: Philip Gregory, Chief Financial Officer	
Accountable Strategic Leadership Director: Fiona Taylor, 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: <ul style="list-style-type: none">i. Pension Fund Budget 1 April 2023 to 31 March 2025,ii. London CIV update,iii. Update from the Independent Investment advisor,iv. Internal Audit of the Pension Fund. The Committee is recommended to agree: <ul style="list-style-type: none">v. Investment Consultants Strategic Objectives for 2023.	

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 Budget 1 April 2023 to 31 March 2025,
- ii. London CIV update,
- iii. Update from the Independent Investment advisor,
- iv. Internal Audit of the Pension Fund and
- v. Investment Consultants Strategic Objectives for 2023.

2. Pension Fund Budget 1 April 2022 to 31 March 2025

2.1 Table 1 provides Members with the Fund's three-year budget to 31 March 2025.

Table 1: Pension Fund Budget 1 April 2022 to 31 March 2025

	2022/23	2023/24	2024/25
Income	£000s	£000s	£000s
Council	8,681	9,068	9,341
Admitted bodies	467	448	415
Scheduled bodies	1,908	1,933	1,891
Total contributions from members	11,055	11,449	11,646
Council - Normal	27,822	27,801	28,635
Admitted bodies - Normal	1,938	1,860	1,724
Scheduled bodies - Normal	7,383	7,477	7,316
Pension Strain	250	500	250
Total contributions from employers	37,393	37,638	37,925
Total Contributions	48,449	49,086	49,572
Individual Transfers	3,500	3,500	3,500
Total Income Before Investments	51,949	52,586	53,072
Expenses			
Pensions			
Council	- 30,891	-34,999	- 36,049
Admitted Bodies	- 394	- 447	- 460
Scheduled Bodies	- 6,610	- 7,490	- 7,714
Total	-37,895	-42,935	- 44,223
Lump sums			
Council	- 3,957	- 3,957	- 3,957
Admitted Bodies	- 388	- 388	- 388
Scheduled Bodies	- 748	- 748	- 748
Total	- 5,093	- 5,093	- 5,093
Death grants	- 1,400	- 1,500	- 1,600
Payments to and on account of leavers	- 4,500	- 4,500	- 4,500
Total Expense	- 48,888	- 54,028	- 55,416
Net Income / (Expenditure) Excl Investments and Management Costs	3,061	- 1,441	- 2,344
Total Management Costs (cash)	- 3,204	- 1,887	- 1,958
Net Income / (Expenditure) Excluding Investments	- 143	- 3,328	- 4,302
Investment Income			
BlackRock	2,400	2,472	2,546
Hermes	500	515	530
Total	2,900	2,987	3,077
Net Income / (Expenditure) - cash	2,757	- 341	- 1,225

2.2 The three-year budget has fairly stable member numbers. A 10.1% increase in pensions in 2023/24 due to the current high level of inflation has risen the total expenses forecasted. There is an average salary increase of 6.6%, however as the council contribution will fall from 23% to 22%, this will partially offset the increase in 2023/24. Pension Strain is forecasted in increase as a result of the council's savings programme due to central government funding cuts.

A decrease in management expenses is being forecasted as the prepayment from the council is repaid so no interest payments are due to be made. Excluding investments, the fund is expected to be cashflow negative for the next 3 years. There is investment income expected from two investments managers of approximately £3m per annum. Overall, the Fund is expected to be cashflow positive, after investment income, for 2022/23 and negative in the following 2 years.

2.3 On 1 April 2022 a £20m prepayment was paid to the Pension Fund from the Council, as agreed by Members at the March 2022 Committee. This prepayment helped to repay a short-term loan made to the Fund from the Council.

3. London Collective Investment Vehicle (LCIV) Update

3.1 LCIV is the first fully authorised investment management company set up by Local Government. It is the LGPS pool for London to enable Local Authorities to achieve their pooling requirements. Below are the investments the Fund currently has with CIV.

	30/06/2022	Market Move	30/09/2022
Active Investments	£	£	£
LCIV Global Alpha Growth Fund	256,468,656	2,129,352	258,598,008
LCIV Global Total Return Fund	113,499,169	-2,668,582	110,830,587
LCIV Real Return Fund	80,245,096	-3,437,430	76,807,666
Total	450,212,921	-3,976,660	446,236,261

3.2 At 30 September 2022, the total assets deemed pooled stood at £23.8bn. Assets under management in the ACS stood at £12.2bn and assets in private market funds stood at £986m on 30 June 2022. The value of 'pooled' passive assets was £10.5bn, which is managed by L&G and BlackRock. AUM has fallen due to adverse markets from March 2022 to September 2022 by nearly £1bn.

4. Independent Advisor Update: John Raisin

Since the last Independent Advisor's national LGPS Update which was considered at the Pensions Committee held on 14 September 2022 there has been another change in the Government Minister responsible for the LGPS.

4.1 Change in Government Minister responsible for the LGPS

As reported to the September 2022 meeting of the Pensions Committee Kemi Badenoch MP who was appointed the Minister responsible for the LGPS in October 2021 resigned from the Government on 6 July 2022 and was replaced on 7 July 2022 by Paul Scully MP.

- 4.2 A Consultation including proposals on further developing Investment (Asset) Pooling expected since 2019 had, as explained in Section 1 of this paper, been expected in the Autumn of 2022. This may however now be possibly delayed until 2023.
- 4.3 Following the appointment of Rt Hon Elizabeth Truss MP as Prime Minister on 6 September 2022, Paul Scully MP was retained by the new Prime Minister as Minister of State at the Department for Levelling Up Housing and Communities (DLUHC). This appeared to provide continuity in terms of the Minister responsible for the LGPS. Indeed, during September/October 2022 it is understood there were conversations between Paul Scully MP and some LGPS stakeholders regarding the future of Investment Pooling. The DLUHC appeared to be seeking to positively progress towards issuing a Consultation on the future of Investment Pooling possibly before the end of 2022.
- 4.4 On 25 October 2022 Rt Hon Rishi Sunak MP replaced Rt Hon Elizabeth Truss MP as Prime Minister and on 27 October 2022 Paul Scully MP was removed from his post as Minister of State at the DLUHC. It was not until 8 November 2022 that Lee Rowley MP was officially confirmed as the new Minister whose responsibilities include the LGPS.
- 4.5 The replacement of Paul Scully MP by Lee Rowley MP will almost certainly result in further, and possibly considerable, delays to the issuing of expected LGPS Consultations (and responses to previously closed Consultations) including those on Investment Pooling and Governance in the LGPS which have been expected since 2019 and 2021, respectively.

5. Internal Audit of the Pension Fund

- 5.1 An audit of London Borough of Barking and Dagenham (the Council's) Pension Fund Investments was included as part of the Internal Audit Plan for 2022/23 approved by the Audit & Standards Committee. This was carried out by Pricewaterhouse Coopers (PWC) in October 2022.
- 5.2 The London Borough of Barking and Dagenham (the "Council") is responsible for the administration of the London Borough of Barking and Dagenham Pension Fund (the "Fund"), a defined benefit pension fund. As the administering authority, the Council is responsible, under The Local Government Pension Scheme (LGPS) Regulations 2013, for:
- The collection of contributions; directly from the Council, other participating employers and from their respective contributing employees.
 - The investment of funds in accordance with LGPS regulations, and
 - The payment of monies to retired Fund members.
- 5.3 The Council is also required to comply with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "LGPS investment regulations"). This requires that the fund has an investment strategy statement.
- 5.4 The purpose of this review was to review the design and operation of the controls in place to manage the finances and investments of the fund.
- 5.5 PWC have identified some areas of good practice including a clear governance process around the Investment Strategy Statement, regular performance update to the committee and the use of investment consults to development its long-term investment strategy.

5.6 PWC also identified one low risk and one medium risk around the fund's investment strategy for ethical investments and approvals for the cashflow which is taken to committee. The draft internal audit report is included as appendix 1.

6. Investment Consultants Strategic Objectives for 2023

6.1 The Fund is required, under Part 9 of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019, to provide a Compliance Statement (CS) confirming compliance with Part 7 of the Order which requires the Fund to set Strategic Objectives for its investment consultancy provider. The CS was required to confirm the extent to which the relevant applicable Articles of the relevant Part or Parts of the Order that were in force during the reporting period have been complied with during that period.

6.2 The Fund must ensure it takes "proper advice" in accordance with the LGPS (Management and Investment of Funds) Regulations 2016 on investment matters in order to carry out its role as the Administering Authority for the Fund, it does this by having an appointed Investment Consultant, which is currently Hymans Robertson.

6.3 To comply with The Order the Fund is required to report back to the Competition and Markets Authority by 7 January 2023. The Strategic Objectives for Hymans Robertson, for the period 15 December 2022 to 14 December 2023, have been given consideration and are included as appendix 2 to this report. It is therefore recommended that the Pensions Committee confirm this proposal.

7. Financial Implications

Implications completed by: Philip Gregory, Chief Financial Officer

7.1 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.

8. Legal Implications

Implications completed by: Dr. Paul Feild Senior Governance Solicitor

8.1 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.

9. Consultation

9.1 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.

Background Papers Used in the Preparation of the Report: None