

# PENSIONS COMMITTEE

13 December 2023

<b>Title:</b> Administration and Governance Report	
<b>Report of the Chief Operating Officer</b>	
Public Report	<b>For Information</b>
<b>Wards Affected:</b> None	<b>Key Decision:</b> No
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<b>Accountable Director:</b> Jo Moore, Interim Strategic Director Finance and Investment (S151 Officer)	
<b>Accountable Strategic Leadership Director:</b> Fiona Taylor, Chief Executive	
<b>Summary</b>  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.	
<b>Recommendations</b>  The Committee is asked to note: <ul style="list-style-type: none"><li>i. Pension Fund Budget 1 April 2023 to 31 March 2026,</li><li>ii. that the Fund is cash flow positive,</li><li>iii. London CIV update,</li><li>iv. McCloud summary,</li><li>v. Member Self Service implementation, and the</li><li>vi. Internal Audit of the Pension Fund.</li></ul>	

## 1. Introduction

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

- i. Pension Fund Budget 1 April 2023 to 31 March 2026,
- ii. Cashflow to 30 September 2023,
- iii. London CIV update,
- iv. McCloud Summary,
- v. Member Self Service implementation, and the
- vi. Internal Audit of the Pension Fund

## 2. Pension Fund Budget 1 April 2023 to 31 March 2026

2.1 Table 1 provides Members with the Fund's three-year budget to 31 March 2026.

**Table 1: Pension Fund Budget 1 April 2023 to 31 March 2026**

	2023/24	2024/25	2025/26
<b>Income</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Council	9,529	9,720	9,914
Admitted bodies	453	416	382
Scheduled bodies	2,016	1,954	1,893
<b>Total contributions from members</b>	<b>11,998</b>	<b>12,089</b>	<b>12,189</b>
Council - Normal	30,226	30,830	31,447
Admitted bodies - Normal	1,868	1,715	1,574
Scheduled bodies - Normal	7,692	7,454	7,222
Pension Strain	500	250	250
<b>Total contributions from employers</b>	<b>40,286</b>	<b>40,249</b>	<b>40,494</b>
<b>Total Contributions</b>	<b>52,284</b>	<b>52,338</b>	<b>52,683</b>
<b>Individual Transfers</b>	<b>3,000</b>	<b>3,000</b>	<b>3,000</b>
<b>Total Income Before Investments</b>	<b>55,284</b>	<b>55,338</b>	<b>55,683</b>
<b>Expenses</b>			
<b>Pensions</b>			
Council	-33,937	-34,955	-36,004
Admitted Bodies	-288	-296	-305
Scheduled Bodies	-7,875	-8,111	-8,354
<b>Total</b>	<b>-42,100</b>	<b>-43,363</b>	<b>-44,664</b>
<b>Lump sums</b>			
Council	-4,540	-4,676	-4,817
Admitted Bodies	-1,139	-1,173	-1,208
Scheduled Bodies	-213	-219	-226
<b>Total</b>	<b>-5,892</b>	<b>-6,069</b>	<b>-6,251</b>
<b>Death grants</b>	<b>- 1,500</b>	<b>- 1,600</b>	<b>- 1,600</b>
<b>Payments to and on account of leavers</b>	<b>- 4,500</b>	<b>- 4,500</b>	<b>- 4,500</b>
<b>Total Expense</b>	<b>-53,991</b>	<b>- 55,531</b>	<b>-57,014</b>
<b>Net Income / (Expenditure) Excl Investments and Management Costs</b>	<b>1,293</b>	<b>- 193</b>	<b>- 1,331</b>
<b>Total Management Costs (cash)</b>	<b>- 1,887</b>	<b>- 1,958</b>	<b>- 2,032</b>
<b>Net Income / (Expenditure) Excluding Investments</b>	<b>- 594</b>	<b>- 2,151</b>	<b>- 3,363</b>
<b>Investment Income</b>			
BlackRock	2,472	2,546	2,623
Hermes	515	530	546
<b>Total</b>	<b>2,987</b>	<b>3,077</b>	<b>3,169</b>
<b>Net Income / (Expenditure) - cash</b>	<b>2,939</b>	<b>926</b>	<b>- 194</b>

2.2 The three-year budget has fairly stable member numbers. A forecast 8.0% 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 6.0%, however as the council contribution also fell from 23% to 22%, this partially offset the increase in income in 2023/24. Employer contribution will remain at 22% in the next 2 two years. Pension Strain is forecasted to increase in 2023/24 as a result of the council's savings programme due to central government funding cuts then this forecasted to fall in the following years.

2.3 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 2023/24 and 2024/25 and negative in the following year.

### 3. Cash flow to 30 September 2023

3.1 Table 2 below provides Members with the Fund's Cash flow to 30 September 2023.

**Table 2: Actual Pension Fund Cash Flow to 30 September 2023**

	<b>2023/24 Budget £000's</b>	<b>2022/23 Forecast £000's</b>	<b>Over / Under £000's</b>
<b><u>Contributions</u></b>			
<b>Employee Contributions</b>			
Council	9,500	9,000	-500
Admitted bodies	450	417	-33
Scheduled bodies	2,000	2,073	73
<b>Employer Contributions</b>			
Council	30,000	29,525	-475
Admitted bodies	1,800	1,770	-30
Scheduled bodies	7,700	7,850	150
Pension Strain	500	500.00	-
Transfers In	3,000	1,865	-1,135
<b><u>Total Member Income</u></b>	<b>54,950</b>	<b>53,000</b>	<b>-1,950</b>
<b><u>Expenditure</u></b>			
Pensions	-42,100	-41,750	350
Lump Sums and Death Grants	-7,500	-8,645	-1,145
Payments to and on account of leavers	-4,500	-4,300	200
Administrative expenses	-800	-800	-
<b><u>Total Expenditure on members</u></b>	<b>-54,900</b>	<b>-55,495</b>	<b>-595</b>
<b><u>Net additions for dealings with members</u></b>	<b>50</b>	<b>-2,495</b>	<b>-2,545</b>
<b><u>Returns on Investments</u></b>			
Investment Income	15,000	15,000	-
Profit (losses)	35,000	35,000	-
Investment management expenses	-4,500	-4,500	-
<b><u>Net returns on investments</u></b>	<b>45,500</b>	<b>45,500</b>	<b>-</b>
<b><u>Net increase (decrease) in the net assets</u></b>	<b>45,550</b>	<b>43,005</b>	<b>-2,545</b>
<b>Asset Values</b>	<b>1,406,180</b>	<b>1,406,180</b>	
<b>Liabilities</b>	<b>1,305,583</b>	<b>1,305,583</b>	
<b>Funding Level</b>	<b>107.71%</b>	<b>107.71%</b>	

## 4. London Collective Investment Vehicle (LCIV) Update

4.1 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.

	30/06/2023	Market Move	30/09/2023
Active Investments	£	£	£
LCIV Global Alpha Growth Fund	255,705,776	-59,906,996	195,798,780
LCIV Global Total Return Fund	113,996,254	-18,469,315	95,526,939
LCIV Real Return Fund	77,186,153	243,770	77,429,923
LCIV Global Bond Fund		68,715,907	68,715,907
<b>Total</b>	<b>446,888,183</b>	<b>-9,416,634</b>	<b>437,471,549</b>

### 4.2 Update from the London CIV

At 30 September 2023, the total assets deemed pooled stood at approximately £27.4bn. Assets under management in the ACS stood at £13.4bn. The value of 'pooled' passive assets was £12.6bn, which is managed by L&G and BlackRock. AUM has decreased due to less favourable market conditions from June 2023 to September 2023 by £0.3bn.

## 5. McCloud Summary of current position

5.1 Regulations published and effective from 1 October 2023. When the LGP changed from final salary scheme to career average scheme in 2014, older members were protected from the changes. In 2018, the Courts found that younger members had been discriminated against because the protections did not apply to them. The 2023 changes are called the McCloud remedy. They remove the age discrimination found in the McCloud court case.

5.2 However not all LGPS members are affected by the changes. The changes only affect people if:

- they were paying into the LGPS or another public service pension scheme before 1 April 2012
- they were also paying into the LGPS between 1 April 2014 and 31 March 2022
- and they have been a member of a public service pension scheme without a continuous break of more than 5 years

5.3 Cases identified from 1 October 2023 will be automatically assessed and an underpin addition added if applicable. Action for Pension Funds - DLUHC have published a prioritisation list stating the order of cases that funds need to look at to identify those cases within the remedy period that would not have previously been considered for underpin protection. The fund will need to identify and consider whether any retirements, deaths (survivor benefits), trivial commutations and transfers that have been processed in the remedy period will need to be recalculated.

## 6. Member Self Service Implementation

6.1 The fund recently launched its Member Self Service Pension portal to the active members of the pension scheme following a 12-week implementation and testing project. The cost of the project was £62,659. Registration instructions were

communicated to around 6,000 members at the beginning of August and to date, just over 2,000 have registered.

## 6.2 Fund Members are able to:

- View their annual benefit statements (including a video ABS facility)
- Calculate retirement forecasts
- View and amend personal details such as home address and email
- View and amend beneficiary details

6.3 Subsequent communications will continue to be issued to encourage more members to register. The portal will be launched to the Fund's deferred pensioner members next year. Once this has been achieved, annual benefit statements will be completely paperless resulting in reduced printing and postage costs. Initial feedback has been extremely positive.

## 7. Internal Audit of the Pension Fund

7.1 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 2023/24 approved by the Audit & Standards Committee. This was carried out in-house in October 2023.

7.2 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.

7.3 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.

7.4 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.

7.5 There were two risk areas identified around Life certificate forms not being sent to overseas Pensioners and pension activity monitoring. The draft internal audit report is included as appendix 1.

## 8. Financial Implications

*Implications completed by: David Dickinson, Investment Fund Manager*

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. Consultation**

10.1 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**