

PENSIONS COMMITTEE

20 March 2024

Title: Administration and Governance Report	
Report of the Chief Operating Officer	
Public Report	For Information
Wards Affected: None	Key Decision: No
Report Author: Jesmine Anwar, Pension Fund Accountant	Contact Details: Tel: 020 8227 3763 E-mail: jesmine.anwar@lbbd.gov.uk
Accountable Director: Jo Moore, Interim Strategic Director Finance and Investment (S151 Officer)	
Accountable Strategic Leadership Director: Fiona Taylor, 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 2026,ii. that the Fund is cash flow positive,iii. London CIV update, andiv. Review of early retirement strain factors.	

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 31 December 2023,
- iii. London CIV update, and
- iv. Review of early retirement strain factors.

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

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 31 December 2023

3.1 Table 2 below provides Members with the Fund's Cash flow to 31 December 2023.

Table 2: Actual Pension Fund Cash Flow to 31 December 2023

	2023/24 Budget £000's	2023/24 Forecast £000's	Over / Under £000's
<u>Contributions</u>			
Employee Contributions			
Council	9,500	9,800	800
Admitted bodies	450	420	-30
Scheduled bodies	2,000	2,150	150
Employer Contributions			
Council	30,000	30,000	0
Admitted bodies	1,800	1,770	-30
Scheduled bodies	7,700	8,100	400
Pension Strain	500	500	0
Transfers In	3,000	4,300	1,300
<u>Total Member Income</u>	54,950	57,040	2,590
<u>Expenditure</u>			
Pensions	-42,100	-41,750	350
Lump Sums and Death Grants	-7,500	-7,900	-400
Payments to and on account of leavers	-4,500	-4,150	350
Administrative expenses	-800	-800	0
Total Expenditure on members	-54,900	-54,600	300
<u>Net additions for dealings with members</u>	50	2,440	2,890
<u>Returns on Investments</u>			
Investment Income	15,000	15,000	-
Profit (losses)	35,000	35,000	-
Investment management expenses	-4,500	-4,500	-
Net returns on investments	45,500	45,500	-
Net increase (decrease) in the net assets	45,550	47,940	2,890
Asset Values	1,406,180	1,406,180	
Liabilities	1,305,583	1,305,583	
Funding Level	107.71%	107.71%	

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.

	30/09/2023	Market Move	31/12/2023
Active Investments	£	£	£
LCIV Global Alpha Growth Fund	195,798,780	15,777,986	211,576,766
LCIV Global Total Return Fund	95,526,939	4,268,831	99,795,770
LCIV Real Return Fund	77,429,923	4,059,996	81,489,919
LCIV Global Bond Fund	68,715,907	5,153,664	73,869,571
Total	437,471,549	29,260,477	466,732,026

4.2 Update from the London CIV

At 31 December 2023, the total assets deemed pooled stood at approximately £29.4bn which is a £2bn increase from the previous quarter. Assets under management in the ACS stood at £14.3bn. The value of 'pooled' passive assets was £15.9bn, which is managed by L&G and BlackRock.

5. Review of Early Retirement Strain Factors

5.1 To ensure strain contributions sought from employers are reflective of the ongoing funding cost, Barnett Waddingham have updated the strain factors to be in line with the 2022 funding basis. A strain on the Fund arises when a member retires earlier than planned without any reduction being applied to their benefits to reflect early payment. They have provided factors for calculating the strain on the Fund arising from members taking unreduced early retirement.

5.2 Barnett Waddingham have derived factors to be applied to a member's pension that can be used to determine the cost of paying immediate benefits on an unreduced basis. The two main factors are Early retirement reduction factors and Augmentation factors.

5.3 Barnett Waddingham have produced a detailed report which is included as appendix 1 to this report for members to note.

6. Financial Implications

Implications completed by: David Dickinson, Investment Fund Manager

6.1 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.

7. Legal Implications

Implications completed by: Dr Paul Feild Senior Governance Solicitor

7.1 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.

8. Consultation

- 8.1 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