

## PENSIONS PANEL

14 December 2016

<b>Title:</b> Administration and Governance Report	
<b>Report of the Strategic Director, Finance &amp; Investment</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> Kathy Freeman, Finance Director	
<b>Accountable Strategic Director:</b> Jonathan Bunt, Strategic Director – Finance and Investment	
<b>Recommendations</b>  The Panel is recommended to note:  i. that the Fund is cash flow positive; ii. the Fund's three year budget for the period 1 April 2016 to 31 March 2019; and iii. the Fund's 2016/17 cash flow is forecast to be significantly higher than the budgeted cash flow, predominantly due to investment returns.	

## 1. Introduction

1.1 It is best practice for Members to receive regular administration data and governance updates. Administration data includes cash flow, member numbers, governance and consultations. This paper covers three main areas including:

- i. Pension Fund Budget 1 April 2016 to 31 March 2019;
- ii. Cash flow to 31 July 2016; and
- iii. Pension Fund Stakeholder Meeting.

## 2. Pension Fund Budget 1 April 2016 to 31 March 2019

2.1 Table 1 provides Members with the Fund's three-year budget to 31 March 2019.

**Table 1: Pension Fund Budget 1 April 2016 to 31 March 2019**

	2016/17 £000's	2017/18 £000's	2018/19 £000's
<b>Contributions</b>			
<b>Employee Contributions</b>			
Council	6,700	6,000	5,500
Admitted bodies	400	800	1,200
Scheduled bodies	2,300	2,400	2,500
<b>Employer Contributions</b>			
Council	24,500	22,500	20,000
Admitted bodies	1,000	2,000	3,000
Scheduled bodies	8,500	8,900	9,300
<b>Pension Strain</b>	3,000	500	500
<b>Transfers In</b>	2,500	2,500	2,500
<b><u>Total Member Income</u></b>	<b>48,900</b>	<b>45,600</b>	<b>44,500</b>
<b><u>Expenditure</u></b>			
<b>Pensions</b>	-29,000	-30,000	-31,000
<b>Lump Sums and Death Grants</b>	-10,000	-6,000	-6,000
<b>Payments to and on account of leavers</b>	-3,500	-3,500	-3,500
<b>Administrative expenses</b>	-600	-550	-550
<b><u>Total Expenditure on members</u></b>	<b>-43,100</b>	<b>-40,050</b>	<b>-41,050</b>
<b><u>Net additions for dealings with members</u></b>	<b>5,800</b>	<b>5,550</b>	<b>3,450</b>
<b><u>Returns on Investments</u></b>			
<b>Investment Income</b>	5,000	6,000	7,000
<b>Profit (losses)</b>	35,000	35,000	35,000
<b>Investment management expenses</b>	-3,500	-3,300	-3,100
<b>Net returns on investments</b>	<b>36,500</b>	<b>37,700</b>	<b>38,900</b>
<b>Net increase (decrease) in the net assets</b>	<b>42,300</b>	<b>43,250</b>	<b>42,350</b>
<b>Asset Values</b>	<b>814,597</b>	<b>857,847</b>	<b>900,197</b>

- 2.2 The cash flow forecast shows a movement from members being directly employed by the Council to some members being funded by admitted bodies and academies.
- 2.3 A significant increase in lump sum payments has been projected but this will be mitigated by an increase in pension strain contributions.
- 2.4 Overall the Fund is expected to remain cash flow positive for the duration of the three years but for the net dealing with members to reduce to £3.5m by 2019. Fund manager fees are forecast to drop from £3.5m to £3.1m by 2019 as a result of savings obtained from pooling investments via the London CIV.

### 3. Cash flow to 31 October 2016

- 3.1 Table 2 below provides Members with the Fund's Cash flow to 31 October 2016.

**Table 2: 2016/17 Forecast Pension Fund Cash Flow**

	<b>2016/17 Budget £000's</b>	<b>2016/17 Forecast £000's</b>	<b>Over / Under £000's</b>
<b><u>Contributions</u></b>			
Employee Contributions			
Council	6,700	7,095	395
Admitted bodies	400	313	(87)
Scheduled bodies	2,300	2,410	110
Employer Contributions			
Council	24,500	24,666	166
Admitted bodies	1,000	979	(21)
Scheduled bodies	8,500	9,701	1,201
Pension Strain	3,000	3,000	-
Transfers In	2,500	2,500	-
<b><u>Total Member Income</u></b>	<b><u>48,900</u></b>	<b><u>50,665</u></b>	<b><u>1,765</u></b>
<b><u>Expenditure</u></b>			
Pensions	(29,000)	(29,376)	(376)
Lump Sums and Death Grants	(10,000)	(11,638)	(1,638)
Payments to and on account of leavers	(3,500)	(2,500)	1,000
Administrative expenses	(600)	(650)	(50)
<b><u>Total Expenditure on members</u></b>	<b><u>(43,100)</u></b>	<b><u>(44,164)</u></b>	<b><u>(1,064)</u></b>
<b><u>Net additions for dealings with members</u></b>	<b><u>5,800</u></b>	<b><u>6,501</u></b>	<b><u>701</u></b>
<b><u>Returns on Investments</u></b>			
Investment Income	5,000	6,000	1,000
Profit (losses)	35,000	100,000	35,000
Investment management expenses	(3,500)	(3,000)	500
Net returns on investments	36,500	103,000	36,500
<b><u>Net increase (decrease) in the net assets</u></b>	<b><u>42,300</u></b>	<b><u>109,501</u></b>	<b><u>37,201</u></b>
<b><u>Asset Values</u></b>	<b><u>814,597</u></b>	<b><u>881,798</u></b>	
<b><u>Liabilities</u></b>	<b><u>(1,100,000)</u></b>	<b><u>(1,135,000)</u></b>	
<b><u>Funding Level</u></b>	<b><u>74.1%</u></b>	<b><u>77.7%</u></b>	

- 3.2 Contributions, including transfers in and pension strain are expected to end the year £1.8m higher than the budget, with expenditure £1.1m lower than budgeted. The net additions for dealing with members are forecast to end the year £0.7m higher than budgeted. This is a decrease in net income and is predominantly due to the significant lump sum payments being made as part of the voluntary redundancy scheme implemented by the Council and Elevate.
- 3.3 Fund management fees are forecast to be £3.0m, which is lower than the budget due to savings made by investing through the London CIV. These savings are summarised in Appendix 1 of this report but at a summary level this saving equates to £127k for 2016/17 and £232.4k for 2017/18.
- 3.4 Administration costs are forecast to be £50k higher than budget as a programme of converting paper files to electronic records is completed.
- 3.5 Both returns and liabilities are forecast to be higher, with the returns better due to fund manager performance and the weakening of Sterling against all major currencies. Liabilities are higher due to a decrease in gilt yields.
- 3.6 Overall the Fund is forecast to end the financial year at around 77.7% funded based on a prudent gilt plus model. This compares favourably with the triennial valuation results where the fund is 77.6% funded.

#### **4. Pension Fund Stakeholder Meeting**

- 4.1 The Pension Fund Stakeholder Meeting was held on the 17<sup>th</sup> November at 12:00 in the Council Chambers, Barking Town Hall.
- 4.2 A total of 24 stakeholders attended, including current members, employers and members of the Pension Board.
- 4.3 Two presentations were provided covering the Fund's performance and key statistics and the Fund's governance, developments and the impact on the Fund of Brexit and the US elections.
- 4.4 Copies of the presentation can be found at the following address:

#### **5. Actuary Meeting**

- 5.1 A meeting was held on the 17<sup>th</sup> November with the with the Fund's employers to discuss the draft Triennial Results.
- 5.2 Representatives from the University of East London, Barking College and a number of the Fund's academies were present.
- 5.3 The Fund's independent advisor, John Raisin, also provided a presentation on the expectations of the employers by both the Fund and also by the pensions regulators.

## **6. Consultation**

- 6.1 Council's Pension Fund governance arrangements involve continuous dialogue and consultation between finance staff and external advisers.

The Strategic Director, Finance & Investment and the Fund's Chair have been informed of the commentary in this report.

## **7. Financial Implications**

*Implications completed by: Jonathan Bunt, Strategic Director, Finance & Investment*

- 7.1 The Pension Fund is a statutory requirement in order to provide a defined benefit pension to scheme members. The management of the administration of benefits and governance of the Fund rests with the Pension Panel.

## **8. Legal Implications**

*Implications completed by: 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. Other Implications**

- 9.1 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:**

- LGPS Consultation on investment reform.

**List of appendices:** None