

## PENSIONS PANEL

15 March 2017

<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> Kathy Freeman, Director of Finance	
<b>Accountable Strategic Director:</b> Claire Symonds, Chief Operating Officer	
<b>Recommendations</b>	
<p>The Panel is recommended to note:</p> <ol style="list-style-type: none"><li>i. that the Fund is cash flow positive;</li><li>ii. the Fund's three-year budget for the period 1 April 2016 to 31 March 2019;</li><li>iii. the Fund's 2016/17 cash flow is forecast to be significantly higher than the budgeted cash flow, predominantly due to investment returns;</li><li>iv. that as part of the Council's transformation process, several arms lengths service delivery units (Delivery Unit) will be agreed over the coming year, with a full report to be presented to the June 2017 Panel;</li><li>v. the update on the LGPS reforms; and</li><li>vi. the Fund has to pay £25k (+ VAT) as a service charge and £75k (+VAT) development funding charge to the London CIV in April 2017.</li></ol>	

## 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 2017 to 31 March 2020;
- ii. Cash flow to 31 January 2017; and

## 2. Pension Fund Budget 1 April 2017 to 31 March 2020

2.1 Table 1 provides Members with the Fund's three-year budget to 31 March 2020. The revised forecast for 2016/17 is included for comparison.

**Table 1: Pension Fund Budget 1 April 2017 to 31 March 2020**

<u>Contributions</u>	2016/17	2017/18	2018/19	2019/20
<b>Employee Contributions</b>				
Council	6,700	6,000	5,500	5,000
Admitted bodies	400	800	1,200	1,500
Scheduled bodies	2,300	2,400	2,500	2,800
<b>Employer Contributions</b>				
Council	24,500	22,500	20,000	18,200
Admitted bodies	1,000	2,000	3,000	3,750
Scheduled bodies	8,500	8,900	9,300	10,500
<b>Pension Strain</b>	3,000	1,000	1,000	1,000
<b>Transfers In</b>	2,500	2,500	2,500	2,500
<b><u>Total Member Income</u></b>	48,900	46,100	45,000	45,250
<b><u>Expenditure</u></b>				
<b>Pensions</b>	- 29,000	- 30,000	- 31,000	- 32,000
<b>Lump Sums and Death Grants</b>	- 10,000	- 6,000	- 6,000	- 6,000
<b>Payments to and on account of leavers</b>	- 3,500	- 3,500	- 3,500	- 3,500
<b>Administrative expenses</b>	- 600	- 550	- 550	- 500
<b>Total Expenditure on members</b>	- 43,100	- 40,050	- 41,050	- 42,000
<b><u>Net additions for dealings with members</u></b>	5,800	6,050	3,950	3,250
<b><u>Returns on Investments</u></b>				
<b>Investment Income</b>	5,000	6,000	7,000	7,500
<b>Profit (losses)</b>	115,000	35,000	35,000	35,000
<b>Investment management expenses</b>	- 3,500	- 3,300	- 3,100	- 3,000
<b>Net returns on investments</b>	116,500	37,700	38,900	39,500
<b>Net increase (decrease) in the net assets</b>	122,300	43,750	42,850	42,750
<b>Asset Values</b>	895,000	938,750	981,600	1,024,350

- 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. Pension strain costs reflect the payment of early retirements over a 5-year period rather than as a one off lump sum payment.
- 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 £3.25m by 2020. Fund manager fees are forecast to drop from £3.5m to £3.0m by 2020 as a result of savings obtained from pooling investments via the London CIV.

### 3. Cash flow to 31 January 2017

- 3.1 Table 2 below provides Members with the Fund's Cash flow to 31 January 2017.

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

	2016/17 Budget £000's	2016/17 Forecast £000's	Over / Under £000's
<b><u>Contributions</u></b>			
<b>Employee Contributions</b>			
Council	6,700	6,803	103
Admitted bodies	400	330	(70)
Scheduled bodies	2,300	2,611	311
<b>Employer Contributions</b>			
Council	24,500	24,905	405
Admitted bodies	1,000	944	(56)
Scheduled bodies	8,500	9,421	921
Pension Strain	3,000	1,000	(2,000)
Transfers In	2,500	4,323	1,823
<b><u>Total Member Income</u></b>	<b><u>48,900</u></b>	<b><u>50,336</u></b>	<b><u>1,436</u></b>
<b><u>Expenditure</u></b>			
Pensions	(29,000)	(29,723)	(723)
Lump Sums and Death Grants	(10,000)	(11,525)	(1,525)
Payments to and on account of leavers	(3,500)	(2,500)	1,000
Administrative expenses	(600)	(690)	(90)
<b><u>Total Expenditure on members</u></b>	<b><u>(43,100)</u></b>	<b><u>(44,438)</u></b>	<b><u>(1,338)</u></b>
<b><u>Net additions for dealings with members</u></b>	<b><u>5,800</u></b>	<b><u>5,898</u></b>	<b><u>98</u></b>
<b><u>Returns on Investments</u></b>			
Investment Income	5,000	6,000	1,000
Profit (losses)	35,000	110,000	75,000
Investment management expenses	(3,500)	(3,000)	500
Net returns on investments	36,500	113,000	76,500
<b><u>Net increase (decrease) in the net assets</u></b>	<b><u>42,300</u></b>	<b><u>118,898</u></b>	<b><u>76,598</u></b>
<b><u>Asset Values</u></b>	<b><u>814,597</u></b>	<b><u>891,195</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>78.5%</u></b>	

- 3.2 Contributions, including transfers in and pension strain are expected to end the year £1.4m higher than the budget, with expenditure £1.3m lower than budgeted. The net additions for dealing with members are forecast to end the year £0.1m lower than budgeted. The decrease in income is due to pension strain being paid over a five-year period rather than a one-off lump sum payment. The increase in cost 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 £90k 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 78.5% 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 Options for Arms Lengths Service Delivery Units**

- 4.1 As part of the Council's transformation process, several arms lengths service delivery units (Delivery Unit) will be agreed over the coming year. The setting up of each Delivery Unit will require the TUPE (Transfer of Undertakings - Protection of Employment) transfer of staff and as a result each Delivery Unit will need to be admitted as a separate employer to the Fund.
- 4.2 The Council is looking to create several different service delivery vehicles including, transferring its Leisure Services and establishing a company, Be First, to manage the implementation of its investment and regeneration strategy. In addition, a number of Traded Services will be set up.
- 4.3 Currently the Council is reviewing several options available to it under the Fund's Admissions Policy and these will be reported back for Panel agreement in June 2017.

#### **5. LGPS reform update**

- 5.1 On 2 February a Special Panel meeting was held to discuss the response to the government's criteria for the reform of LGPS investments. The release of the criteria for collaborative investment across the LGPS follows months of discussion and debate about how to pool the LGPS investments into six pools of around £25bn.
- 5.2 At the Special Panel Meeting Members received a presentation from the London CIV's Chief Executive and Chief Investment Officer.

- 5.3 On 15 July 2016 a proposal was submitted by the London CIV detailing plans at both an individual and collective level, with the Fund's submission included as one of the appendices.
- 5.4 On 12 December 2016 the London CIV met with the MP Marcus Jones, to discuss the submission. Overall the response was positive but there was an emphasis on ensuring the speed of the transfer of assets into the pool was increased and that the deadline for pools to become operational remained April 2018.
- 5.5 As outlined in table 3 below, as at 31 December 2016 the Fund has three investments with the pool, totalling nearly a third of assets. A further 21.2% of the Fund's holdings are also in exempt Life Funds (passive investments). Of the remaining 46% that still potentially could be invested in the London CIV, only 15.1% will be difficult to transfer. The timing of investing the other 31% will be dependent on the London CIV providing suitable alternatives.

**Table 3: Fund Holdings at 31 December 2016 split by access to the London CIV**

<b>Fund Manager</b>	<b>Mandate</b>	<b>Value at 31/12/2016 £000s</b>	<b>Value at 31/12/2016 £000s</b>
<b>Invested in the London CIV</b>			
Baillie Gifford	Global Equities	153,011	Invested via the London CIV
Newton	Absolute Return	55,097	Invested via the London CIV
Pyrford	Absolute Return	80,950	Invested via the London CIV
London CIV	Equity	150	
	<b>Total</b>	<b>289,208</b>	<b>32.8%</b>
<b>Life Funds</b>			
UBS Bonds	Passive Bonds	35,305	Life Fund's Exempt from Pooling
UBS Equities	Passive Equities	151,542	Life Fund's Exempt from Pooling
	<b>Total</b>	<b>186,847</b>	<b>21.2%</b>
<b>No Option provided by London CIV</b>			
BlackRock	Property	39,840	London CIV asked to include in Pool
Kempen	Global Equities	146,391	Discussion with London CIV
Schroders	Property	23,039	No Option Provided by London CIV
Standish	Global Credit	64,139	No Option Provided by London CIV
	<b>Total</b>	<b>273,409</b>	<b>31.0%</b>
<b>Illiquid / Cash – unlikely to be transferred to London CIV</b>			
M&G	Senior Loans	3,489	Alternative, no other Option available
Hermes GPE	Infrastructure	64,252	Alternative, no other Option available
Aberdeen	Alternatives	52,362	Alternative, no other Option available
	Cash	12,691	
	<b>Total</b>	<b>132,794</b>	<b>15.1%</b>
<b>Total Fund</b>		<b>882,258</b>	<b>882,258</b>

## **6. London Collective Investment Vehicle Budget Requirements**

- 6.1 On 8 February 2017 the Joint Committee agreed the 2017/18 London CIV budget. As a result, the Fund has to pay £25k (+ VAT) as a service charge and £75k (+VAT) development funding charge. This charge will significantly reduce the savings the Fund is expected to make from the reduced Fund manager fees it is paying.
- 6.2 There is an expectation that these costs will reduce over time and will be replaced by a service charge on the assets invested through the CIV but this is unlikely to happen before 2020.

## **7. Consultation**

- 7.1 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.

## **8. Financial Implications**

*Implications completed by: Kathy Freeman, Director of Finance*

- 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 and governance of the Fund rests with the Pension Panel.

## **9. Legal Implications**

*Implications completed by: 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:** None

**List of appendices:** None