

## PENSIONS PANEL

13 December 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>	
The Panel is recommended to note: <ul 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 2017 to 31 March 2020;</li><li>iii. that interview dates for the actuarial tender will now be in February 2018. If any Member would like to be on the selection panel, please can they advise the Group Manager for Treasury and Pensions; and</li><li>iv. that the Fund has now opted up to Professional Investor status with all advisors, Money Market Funds, the Custodian and all of the Fund's investment managers.</li></ul>	

### 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 September 2017;
- iii. The London Collective Investment Vehicle (LCIV)
- iv. Update on MiFID 2;
- v. Actuary Contract Tender; and
- vi. Annual Pension Fund Stakeholder Forum.

### 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. This will next be revised for the March 2018 Pension Panel.

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

	<b>2017/18 Budget</b>	<b>2018/19 Budget</b>	<b>2019/20 Budget</b>
<b><u>Contributions</u></b>			
<b>Employee Contributions</b>			
Council	6,000	5,500	5,000
Admitted bodies	800	1,200	1,500
Scheduled bodies	2,400	2,500	2,800
<b>Employer Contributions</b>			
Council	22,500	20,000	18,200
Admitted bodies	2,000	3,000	3,750
Scheduled bodies	8,900	9,300	10,500
<b>Pension Strain</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>
<b>Transfers In</b>	<b>2,500</b>	<b>2,500</b>	<b>2,500</b>
<b><u>Total Member Income</u></b>	<b>46,100</b>	<b>45,000</b>	<b>45,250</b>
<b><u>Expenditure</u></b>			
<b>Pensions</b>	<b>(30,000)</b>	<b>(31,500)</b>	<b>(32,800)</b>
<b>Lump Sums and Death Grants</b>	<b>(6,000)</b>	<b>(6,000)</b>	<b>(6,000)</b>
<b>Payments to and on account of leavers</b>	<b>(3,500)</b>	<b>(3,500)</b>	<b>(3,500)</b>
<b>Administrative expenses</b>	<b>(550)</b>	<b>(550)</b>	<b>(500)</b>
<b>Total Expenditure on members</b>	<b>(40,050)</b>	<b>(41,550)</b>	<b>(42,800)</b>
<b><u>Net additions for dealings with members</u></b>	<b>6,050</b>	<b>3,950</b>	<b>3,250</b>
<b><u>Returns on Investments</u></b>			
<b>Investment Income</b>	<b>6,000</b>	<b>7,000</b>	<b>7,500</b>
<b>Profit (losses)</b>	<b>35,000</b>	<b>35,000</b>	<b>35,000</b>
<b>Investment management expenses</b>	<b>(3,300)</b>	<b>(3,100)</b>	<b>(3,000)</b>
<b>Net returns on investments</b>	<b>37,700</b>	<b>33,900</b>	<b>31,500</b>
<b>Net increase (decrease) in the net assets</b>	<b>43,750</b>	<b>37,850</b>	<b>34,750</b>
<b>Asset Values</b>	<b>938,750</b>	<b>976,600</b>	<b>1,011,350</b>

- 2.2 The three-year budget shows a movement from members being directly employed by the Council to some members being funded by admitted bodies and academies. An increase in lump sum payments is projected but will be mitigated by an increase in pension strain. Pension strain costs reflect the payment of early retirements over 5-years rather than as a one-off payment. The increase in pension payments has increased to reflect an estimated pension increase of 3.0% for 2018/19.
- 2.3 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.

### 3. Cash flow to 30 September 2017

3.1 Table 2 below provides Members with the Fund's Cash flow to 30 September 2017.

**Table 2: 2017/18 Forecast Pension Fund Cash Flow**

	<b>2017/18 Budget £000's</b>	<b>2017/18 Forecast £000's</b>	<b>Over / Under £000's</b>
<b><u>Contributions</u></b>			
<b>Employee Contributions</b>			
Council	6,000	6,794	794
Admitted bodies	800	309	-491
Scheduled bodies	2,400	2,180	-220
<b>Employer Contributions</b>			
Council	22,500	23,292	792
Admitted bodies	2,000	1,013	-987
Scheduled bodies	8,900	8,310	-590
Pension Strain	1,000	2,083	1,083
Transfers In	2,500	1,840	-660
<b><u>Total Member Income</u></b>	<b>46,100</b>	<b>45,822</b>	<b>-278</b>
<b><u>Expenditure</u></b>			
Pensions	-30,000	-31,261	-1,261
Lump Sums and Death Grants	-6,000	-7,776	-1,776
Payments to and on account of leavers	-3,500	-4,019	-519
Administrative expenses	-550	-650	-100
<b><u>Total Expenditure on members</u></b>	<b>-40,050</b>	<b>-43,706</b>	<b>-3,656</b>
<b><u>Net additions for dealings with members</u></b>	<b>6,050</b>	<b>2,115</b>	<b>-3,935</b>
<b><u>Returns on Investments</u></b>			
Investment Income	6,000	6,000	-
Profit (losses)	35,000	40,000	5,000
Investment management expenses	-3,300	-3,300	-
Net returns on investments	37,700	42,700	5,000
<b><u>Net increase (decrease) in the net assets</u></b>	<b>43,750</b>	<b>44,815</b>	<b>1,065</b>
<b><u>Asset Values</u></b>	<b>960,557</b>	<b>961,622</b>	
<b><u>Liabilities</u></b>	<b>-1,100,000</b>	<b>-1,200,000</b>	
<b><u>Funding Level</u></b>	<b>87.30%</b>	<b>80.10%</b>	

3.2 Administration costs are forecast to be £100k higher than budget as an external company will complete the Fund's Guaranteed Minimum Pension reconciliation.

3.3 Pension costs are significantly higher than budget due to the full effect year effect of the 2016/17 retirements and an increase in early retirements from the UEL.

3.4 Overall the Fund is forecast to end the financial year at around 80.1% funded based on a prudent gilt plus model. This compares favourably with the triennial valuation results where the fund is 77.6% funded and is due to higher than expected returns and a decrease in inflation expectations.

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

4.1 The Chief Executive Hugh Grover has stepped down and Mark Hyde-Harrison has been appointed interim CEO. Mark was the chair of the National Association of Pension Funds from 2011 to 2013 and Head of Defined Contribution Strategy at consultancy Willis Towers Watson from 2013 to 2015. Kevin Cullen has been appointed as the Clients Relationship Director.

### **4.2 LCIV Quarterly Update**

#### **Fixed Income and Cashflow Strategies**

Larissa Benbow (LCIV's Head of Fixed Income) is discussing investment fund design based on London LA priorities for Fixed Income (FI). It is hoped that there will be presentation from short listed Liquid managers in the first week of December with the Board to sign off the final selection the following week.

The first (more liquid) FI products are scheduled to open early in the New Year with more to follow soon after. These funds will include; Global Bonds, Liquid Loans and Multi Asset Credit (Liquid). The more illiquid Fixed Income products will like be towards the end of 2018.

#### **Infrastructure**

LCIV now have appointed Ryan Smart to work on infrastructure products to be offered on the pool. Ryan will set out the medium-term strategy in the coming months and has been gathering intelligence by meeting with a range of fund managers, placement agents, advisors and other institutional investors within the asset class.

LCIV hosted the first Infrastructure working group at the end of September at which several boroughs looking to get immediate exposure to the asset class were in attendance. From the meeting it was agreed that the LCIV would look to launch a global, unlisted, income focused fund that concentrated on core/core-plus assets. As a result, the LCIV are now scoping out the universe and will report back with their findings to the group. The Group Manager for Treasury and Pensions is a member of the infrastructure working group.

#### **Governance Review of the CIV**

Willis Towers Watson have been appointed to run a governance review of the LCIV. A survey has been sent to over 100 'stakeholders' and workshops and follow up discussion will be taking place over the next few weeks with a view to having findings and recommendations ready for review, discussion and finalisation before Christmas.

## **5. MiFID II update**

5.1 At the September Pension Panel, Members agreed that the Fund should seek to Opt Up to Professional Investor and delegated authority to the Sections 151 officer to complete the Opt Up process.

5.2 This process has now been completed and the Fund has opted up to all Fund managers currently being used, advisors and the Fund's custodian.

## **6. Actuarial Contract Tender**

- 6.1 At the September Pension Panel Members delegated authority to officers to commence procurement for an actuary, using the National LGPS Framework. Members agreed, the interview dates will likely be in late November.
- 6.2 Due to the work required to complete the MiFID II opting up process it is necessary to move the dates for the interview to February 2018. If any Member would like to be on the selection panel, please can they advise the Group Manager for Treasury and Pensions.

## **7. Annual Pension Fund Stakeholder Forum**

- 7.1 The Annual Pension Fund Stakeholder Forum took place on the 16 November 2017 at Barking Town Hall.
- 7.2 The Forum provided an update to Fund members on the performance, governance and the administration of the Fund.

## **8. Consultation**

- 8.1 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.

## **9. Financial Implications**

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

- 9.1 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.

## **10. Legal Implications**

*Implications completed by: Paul Feild Senior Governance Solicitor*

- 10.1 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.

## **11. Other Implications**

11.1 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