

PENSIONS COMMITTEE

13 March 2019

Title: Administration and Governance Report	
Report of the Chief Operating Officer	
Public Report	For Information
Wards Affected: None	Key Decision: No
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Accountable Director: Helen Seechurn, Interim Director of Finance	
Accountable Strategic Director: Claire Symonds, Chief Operating Officer	
Recommendations	
<p>The Committee is recommended to note:</p> <ol style="list-style-type: none">i. that the Fund is cash flow positive;ii. the Fund's three-year budget for the period 1 April 2018 to 31 March 2021;iii. the appointment of Northern Trust as the Fund's Custody and Performance monitoring provider;iv. the extension of the actuarial and investment consultant contract to 30 June 2020;v. the Independent Advisor's LGPS Update in appendix 1;vi. the Independent Advisor's observations on the draft Statutory Guidance on Asset Pooling in Appendix 2. <p>The Committee is recommended to delegate to the Chief Operating Officer to submit a response to the MHCLG on the informal consultation on Asset Pooling.</p>	

1. Introduction

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

- i. Pension Fund Budget 1 April 2018 to 31 March 2021;
- ii. Cash flow to 31 January 2019;
- iii. Update on the investment consultant, actuary and custodian tender;
- iv. An LGPS update by the Independent Advisor (appendix 1); and
- v. Independent Advisor's observations on the draft Statutory Guidance on Asset Pooling (appendix 2).

2. Pension Fund Budget 1 April 2018 to 31 March 2021

2.1 Table 1 provides Members with the Fund's three-year budget to 31 March 2021.

Table 1: Pension Fund Budget 1 April 2018 to 31 March 2021

<u>Contributions</u>	2018/19 Budget	2019/20 Budget	2020/21 Budget
Opening Market Value	1,000,000	1,040,500	1,077,300
Employee Contributions			
Council	4,500	4,000	3,500
Admitted bodies	2,200	2,000	1,800
Scheduled bodies	2,500	2,600	2,700
Employer Contributions			
Council	18,000	16,000	14,000
Admitted bodies	5,000	4,500	4,000
Scheduled bodies	9,000	9,400	9,700
Pension Strain	1,000	1,000	1,000
Transfers In	2,500	2,500	2,500
<u>Total Member Income</u>	44,700	42,000	39,200
<u>Expenditure</u>			
Pensions	- 33,000	- 34,500	- 36,000
Lump Sums and Death Grants	- 6,000	- 6,000	- 6,000
Transfers Out	- 3,500	- 3,500	- 3,500
Administrative expenses	- 600	- 600	- 600
<u>Total Expenditure on members</u>	- 43,100	- 44,600	- 46,100
<u>Net dealings with members</u>	1,600	- 2,600	- 6,900
<u>Returns on Investments</u>			
Investment Income	7,000	7,500	7,500
Profit (losses)	35,000	35,000	35,000
Investment management expenses	- 3,100	- 3,100	- 3,100
<u>Net returns on investments</u>	38,900	39,400	39,400
<u>Net increase (decrease) in assets</u>	40,500	36,800	32,500
<u>Closing Market Value</u>	1,008,876	1,045,676	1,078,176

2.2 The three-year budget shows a movement from members being employed by the Council to being funded by admitted bodies as staff move across to the various companies set up by the Council, including Be First, Traded Services, Home Services and Schools Improvement Partnership. The forecast is for the Council contribution to decrease and the admitted body contribution will initially increase, but as the admitted bodies are closed to new entries, their contributions will decrease over time. Due to these changes, the overall member income will decrease in 2019/20 and 2020/21.

2.3 An increase in lump sum payments is projected but it is expected that this will be mitigated by an increase in pension strain. Pension payments are forecast to increase due to an increase in the number of pensioners as well as to reflect a pension increase of 3.0% for 2018/19 and 2.4% for 2019/20.

2.4 Overall the Fund is expected to be cashflow negative in 2020/21 if investment income and management expenses are included but return is excluded.

3. Cash flow to 31 January 2019

3.1 Table 2 below provides Members with the Fund's Cash flow to 31 January 2019.

Table 2: Forecast Pension Fund Cash Flow to 31 January 2019

	2018/19 Budget £000's	2018/19 Forecast £000's	Over / Under £000's
<u>Contributions</u>			
Employee Contributions			
Council	4,500	6,702	2,202
Admitted bodies	2,200	2,091	(109)
Scheduled bodies	2,500	1,916	(584)
Employer Contributions			
Council	18,000	20,102	2,102
Admitted bodies	5,000	7,025	2,025
Scheduled bodies	9,000	7,268	(1,732)
Pension Strain	1,000	1,500	500
Transfers In	2,500	2,910	410
<u>Total Member Income</u>	44,700	49,515	4,815
<u>Expenditure</u>			
Pensions	(33,000)	(33,400)	(400)
Lump Sums and Death Grants	(6,000)	(8,105)	(2,105)
Payments to and on account of leavers	(3,500)	(1,820)	1,680
Administrative expenses	(600)	(650)	(50)
Total Expenditure on members	(43,100)	(43,975)	(875)
<u>Net additions</u>	1,600	5,540	3,940
<u>Returns on Investments</u>			
Investment Income	7,000	7,000	-
Profit (losses)	35,000	25,000	(10,000)
Investment management expenses	(3,100)	(3,700)	(600)
Net returns on investments	38,900	28,300	(10,600)
Net increase (decrease) in the assets	40,500	33,840	(6,660)
Asset Values	1,008,876	1,002,216	
Liabilities	(1,200,000)	(1,280,000)	
Funding Level	84.1%	78.3%	

4. Update on the investment consultant, actuary and custodian tender

4.1 Custodian Tender

On 1 February 2019 the Fund tendered for Custody and Performance monitoring, using the National LGPS Framework for Global Custody Services. The Fund used a Further Competition to assess and evaluate which Custodian best meets the Fund's requirements.

Mercer Sentinel, the technical advisors to the framework, independently evaluated and scored each service provider, based on specific and targeted technical

proposals submitted in providers' applications to join the framework. In addition, specific additional requirements included as part of the evaluation criteria. The evaluation criteria used is summarised below and included a combination of scoring using Mercer Sentinel, Specific Questions and the Model Portfolio provided:

Evaluation Criteria	Percentage	Basis
Quality Offered	20%	Mercer Sentinel Score + Specific Questions
Service Fit	40%	Mercer Sentinel Score + Specific Questions
Value for Money	40%	Model Fund Portfolio

A deadline for receipt of proposals was set at 17:00 on 12 February 2019.

Scoring was completed on the 13th February and Northern Trust were appointed, subject to a 10-day standstill period.

Transition arrangements are being discussed with State Street, with a termination date of 31 May 2019 agreed. State Street will continue to provide custody and performance monitoring to 31 May 2019.

4.2 Actuary and Investment Consultant Contract

Members have previously been advised that the Fund's contract with Hymans and Aon Hewitt were going to be tendered for in November 2018. To allow the Fund to complete the triennial valuation process using the current actuary and advisor, the Section 151 officer has agreed to extend the contracts until the end of June 2020.

In May 2020 the Fund will use the National Framework to tender for both the Actuary and Investment Consultant contract, with both contracts to be awarded over a 6-year period, which will cover the subsequent two triennial valuations. The result of this extension will be to bring the contracts in line with the triennial valuation and strategy review process.

5. Consultation

- 5.1 Council's Pension Fund governance arrangements involve continuous dialogue and consultation between finance staff and external advisers. The Chief Operating Officer and the Fund's Chair have been informed of the commentary in this report.

6. Financial Implications

Implications completed by: Claire Symonds, Chief Operating Officer

- 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. Other Implications

- 8.1 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:

- i. the Independent Advisor's LGPS Update;
- ii. the Independent Advisor's observations on the draft Statutory Guidance on Asset Pooling.
- iii. Draft guidance on pooling - consultation