

PENSIONS COMMITTEE

12 June 2019

Title: Administration and Governance Report	
Report of the Chief Operating Officer	
Public Report	For Information
Wards Affected: None	Key Decision: No
Report Author: David Dickinson, Investment Fund Manager	Contact Details: Tel: 020 8227 2722 E-mail: david.dickinson@lbbd.gov.uk
Accountable Director: Helen Seechurn, Interim Director of Finance	
Accountable Strategic Leadership Director: Claire Symonds, Chief Operating Officer	
Recommendations	
The Committee is recommended to note:	
(i) that the Fund is cash flow positive;	
(ii) the Fund's three-year budget for the period 1 April 2019 to 31 March 2022; and	
(iii) the Independent Advisor's LGPS Update at appendix 1 to the report.	

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 2019 to 31 March 2022;
- ii. Cash flow to 31 March 2020;
- iii. Update on the custodian tender;
- iv. An LGPS update by the Independent Advisor (appendix 1); and

2. Pension Fund Budget 1 April 2019 to 31 March 2022

2.1 Table 1 provides Members with the Fund's three-year budget to 31 March 2022.

Table 1: Pension Fund Budget 1 April 2019 to 31 March 2022

<u>Contributions</u>	2019/20	2020/21	2021/22
	Budget	Budget	Budget
Opening Market Value	1,022,000	1,040,500	1,077,300
Employee Contributions			
Council	6,200	6,000	5,800
Admitted bodies	1,000	900	800
Scheduled bodies	1,900	1,950	2,000
Employer Contributions			
Council	22,000	21,000	20,000
Admitted bodies	6,900	6,200	5,500
Scheduled bodies	7,100	7,250	7,400
Pension Strain	1,000	1,000	1,000
Transfers In	2,500	2,500	2,500
<u>Total Member Income</u>	<u>48,600</u>	<u>46,800</u>	<u>45,000</u>
<u>Expenditure</u>			
Pensions	(35,000)	(36,500)	(37,500)
Lump Sums and Death Grants	(6,000)	(6,000)	(6,000)
Transfers Out	(2,500)	(2,500)	(2,500)
Administrative expenses	(750)	(700)	(700)
Total Expenditure on members	(44,250)	(45,700)	(46,700)
<u>Net dealings with members</u>	<u>4,350</u>	<u>1,100</u>	<u>(1,700)</u>
<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)
Net returns on investments	38,900	39,400	39,400
Net increase (decrease) in assets	43,250	40,500	37,700
Closing Market Value	<u>1,065,250</u>	<u>1,081,000</u>	<u>1,115,000</u>

- 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. 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 2020/21 and 2021/22.
- 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 2.4% for 2019/20.
- 2.4 Overall the Fund is expected to be cashflow negative in 2021/22 if investment income and management expenses are included but return is excluded.

3. Cash flow to 31 March 2019

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

Table 2: Actual Pension Fund Cash Flow to 31 March 2019

	2018/19 Budget £000's	2018/19 Forecast £000's	Over / Under £000's
<u>Contributions</u>			
<u>Employee Contributions</u>			
Council	4,500	6,710	2,210
Admitted bodies	2,200	959	(1,241)
Scheduled bodies	2,500	1,913	(587)
<u>Employer Contributions</u>			
Council	18,000	23,605	5,605
Admitted bodies	5,000	3,773	(1,227)
Scheduled bodies	9,000	7,183	(1,817)
Pension Strain	1,000	1,428	428
Transfers In	2,500	2,373	(127)
<u>Total Member Income</u>	44,700	47,944	3,244
<u>Expenditure</u>			
Pensions	(33,000)	(33,054)	(54)
Lump Sums and Death Grants	(6,000)	(6,976)	(976)
Payments to and on account of leavers	(3,500)	(2,746)	754
Administrative expenses	(600)	(786)	(186)
<u>Total Expenditure on members</u>	(43,100)	(43,562)	(462)
<u>Net additions for dealings with members</u>	1,600	4,382	2,782
<u>Returns on Investments</u>			
Investment Income	7,000	9,599	2,599
Profit (losses)	35,000	44,385	9,385
Investment management expenses	(3,100)	(5,182)	(2,082)
<u>Net returns on investments</u>	38,900	48,802	9,902
Accruals	-	343	343
<u>Net increase (decrease) in the net assets</u>	40,500	53,527	13,027
<u>Asset Values</u>	1,008,876	1,021,903	
<u>Liabilities</u>	(1,200,000)	(1,320,000)	
<u>Funding Level</u>	84.1%	77.4%	

4. Update on the 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.

The transition process from State Street to Northern Trust is fully underway with the completion date as at 31 May 2019. Northern Trust are also liaising with investment managers to obtain information regarding each fund to proceed with their transitional responsibilities. State Street will continue to provide custody and performance monitoring to 31 May 2019.

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;