

PENSIONS COMMITTEE

17 March 2021

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: Philip Gregory, Finance Director	
Accountable Strategic Leadership Director: Claire Symonds, Chief Operating Officer	
Summary: In presenting the regular administrative data and governance update, the Committee is asked to consider the Pension Fund Prepayment Options set out in Section 2 of the report, and to note: <ul style="list-style-type: none">i. Note the performance review of the Fund's appointed investment consultants, Hymans Robertson, against the agreed Strategic Objectives during the period to 9 December 2020. The review is attached as a confidential Appendix to this report,ii. That a Compliance Statement was submitted to the Competition and Markets Authority on 5 January 2021,iii. That the Fund is cash flow negative,iv. The Fund's three-year budget for the period 1 April 2020 to 31 March 2023, andv. The London CIV Update.	
Recommendations: The Committee is recommended to agree: <ul style="list-style-type: none">i. That a prepayment is made of £20m on 1 April 2021, andii. Approve the Strategic Objectives for the Fund's Investment Consultant for the period 10 December 2020 to 9 December 2021 which are detailed in the "Strategic objectives" column of the confidential Appendix to this report.	

1. Introduction

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

- i. Pension Fund Prepayment Options
- ii. Investment Consultants Strategic Objectives Review

- iii. Pension Fund Budget 1 April 2020 to 31 March 2023;
- iv. Cash flow to 31 December 2020; and
- v. London CIV update.

2. Pension Fund Prepayment Options

- 2.1 As part of the Council's savings options, it prepaid two years of pension contribution totalling £40m to the Pension Fund for 2019/20 and again for 2020/21. A prepayment of contributions is where a lump sum payment is made to the Pension Fund by the Council and it is based on the likely employer contribution. During the year, the first-year prepayment is repaid in twelve equal amounts (i.e. £20m is repaid in twelve equal amounts), with the actual employer contributions paid each month to ensure that the correct contribution rates are paid.
- 2.2 For the prepayment, an amount is paid by the Pension Fund to the Council that equates to the discount rate. For 2020/21 to 2022/23 this equated to an effective interest rate of 4.0%. As at the 31 December 2020, this prepayment has increased in value by 11.6% and by 12.1% over two years. The prepayment allowed the Fund to meet capital calls for Infrastructure and to fund Diversified Alternatives, without the need for the Fund to sell any assets to Fund these investments.
- 2.3 The table below shows the current asset allocation against the target and range. The Fund is currently fully invested and has a short-term borrowing position of approximately £14.9m with the Council. An investment of £10m has been agreed to be invested with Aberdeen Standard in Diversified Alternatives on 1 April 2021.

Table 1: Current Asset Allocation

Asset Class	Current Position	Strategic Allocation Target	Variance	Range
Equities	58.1%	52%	6.1%	50-60
Diversified Growth	14.5%	16%	-1.5%	14-18
Infrastructure	8.0%	8%	0.0%	7-11
Credit	6.6%	8%	-1.4%	6-10
Property	4.9%	5%	-0.1%	4-7
Diversified Alternatives	7.6%	9%	-1.4%	7-10
Fixed Income	3.4%	4%	-0.6%	3-5
Cash	-3.2%	0%	-3.2%	0-1

- 2.4 If agreed, the £20m prepayment for 2022/23 will be used for the following:
- i) to fund £10m agreed investment with Aberdeen in Diversified Alternatives, and
 - ii) to reduce the overdrawn cash position of £14.9m.
- 2.5 It is recommended that a prepayment is made of £20m on 1 April 2021. This will take the total prepayment amount to £40m.

3. Investment Consultants Strategic Objectives Review

Introduction and Background

- 3.1 The Barking and Dagenham Pension Fund is required under Part 9 of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019 to provide a Compliance Statement by 7 January 2021 confirming compliance with Part 7 of the Order which requires the Fund to set Strategic Objectives for its investment consultancy provider. The Compliance Statement was required to confirm the extent to which the relevant applicable Articles of the relevant Part or Parts of the Order that were in force during the reporting period have been complied with during that period.
- 3.2 The Council must ensure it takes “proper advice” in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 on investment matters in order to carry out its role as the Administering Authority for the Fund, it does this by having an appointed Investment Consultant, which is currently Hymans Robertson.

The requirements of the Competition and Markets Authority (CMA) and the Pension Fund’s response

- 3.3 The CMA completed an investigation into fiduciary management and investment consultancy services which resulted in ‘The Investment Consultancy and Fiduciary Management Market Investigation Order 2019’ (The Order).
- 3.4 The Order came into force on 10 December 2019 and to comply with Part 7 of the Order which applies to the LGPS, Strategic Objectives were agreed for Hymans Robertson who are presently investment consultants to the Barking and Dagenham Pension Fund.
- 3.5 Hymans Robertson undertook a self-evaluation of their performance against the Objectives. This has been reviewed by both Fund Officers and the Independent Advisor. The final evaluation is contained in the confidential Appendix to this report.
- 3.6 In order to give additional assurance, the Independent Advisor to the Fund was requested, and agreed, to participate in the review of the performance of Hymans Robertson against the agreed Objectives. The Independent Advisor has considered those reports and papers provided to him during the period under review. The Independent Advisor has confirmed that he is content with the contents of the confidential Appendix in respect of those parts of it with which he has been involved in his role as Independent Advisor to the Fund.
- 3.7 To comply with The Order the Barking and Dagenham Pension Fund was required to report back to the Competition and Markets Authority by 7 January 2021. This requirement was fulfilled by the submission of a Compliance Statement on 5 January 2021.
- 3.8 The Strategic Objectives for Hymans Robertson, for the period 10 December 2020 to 9 December 2021, have been given consideration and it is considered that the existing Strategic Objectives remain appropriate. It is therefore recommended that the Pensions Committee confirm this proposal.

4. Pension Fund Budget 1 April 2020 to 31 March 2023

4.1 Table 1 provides Members with the Fund's three-year budget to 31 March 2023.

Table 1: Pension Fund Budget 1 April 2020 to 31 March 2023

<u>Contributions</u>	2020/21 Budget	2021/22 Budget	2022/23 Budget
Opening Market Value	974,493	1,012,293	1,050,243
Employee Contributions			
Council	6,800	6,600	6,400
Admitted bodies	1,000	900	800
Scheduled bodies	1,950	2,000	2,050
Employer Contributions			
Council	21,000	22,000	23,000
Admitted bodies	4,000	3,750	3,500
Scheduled bodies	7,250	7,400	7,500
Pension Strain	1,000	1,000	1,000
Transfers In	2,500	2,500	2,500
<u>Total Member Income</u>	45,500	46,150	46,750
<u>Expenditure</u>			
Pensions	-36,500	-37,500	-38,500
Lump Sums and Death Grants	-7,000	-6,500	-6,500
Transfers Out	-2,500	-2,500	-2,500
Administrative expenses	-700	-700	-700
<u>Total Expenditure on members</u>	-46,700	-47,200	-48,200
<u>Net dealings with members</u>	-1,200	-1,050	-1,450
<u>Returns on Investments</u>			
Investment Income	7,500	7,500	7,500
Profit (losses)	35,000	35,000	35,000
Investment management expenses	-3,500	-3,500	-3,500
<u>Net returns on investments</u>	39,000	39,000	39,000
<u>Net increase (decrease) in assets</u>	37,800	37,950	37,550
<u>Closing Market Value</u>	1,012,293	1,050,243	1,087,793

4.2 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 increase as the rate increases from 21.0% in 2020/21, 22.0% in 2021/22 and 23.0% in 2022/23. 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 2021/22 and 2022/23.

4.3 An increase in death grant payments is projected in 2020/21. Pension payments are forecast to increase due to an increase in the number of pensioners as well as to reflect a pension increase of 1.7% for 2020/21.

4.4 Overall the Fund is expected to be cashflow negative, although relatively marginally, for net dealings with members but cashflow positive if investment income and management expenses are included. Officers will be working with the fund managers over the coming year to establish a process to utilise the income from property and infrastructure to fund any cash flow shortfalls.

5. Cash flow to 31 December 2020

5.1 Table 2 below provides Members with the Fund's Cash flow to 31 December 2020.

Table 2: Actual Pension Fund Cash Flow to 31 December 2020

	2020/21 Budget £000's	2020/21 Actual £000's	Over / Under £000's
<u>Contributions</u>			
Employee Contributions			
Council	6,800	7,600	800
Admitted bodies	1,000	700	-300
Scheduled bodies	1,950	1,950	0
Employer Contributions			
Council	21,000	24,000	3,000
Admitted bodies	4,000	2,550	-1,450
Scheduled bodies	7,250	7,700	450
Pension Strain	1,000	1,200	200
Transfers In	2,500	4,300	1,800
<u>Total Member Income</u>	45,500	50,000	4,500
<u>Expenditure</u>			
Pensions	-36,500	-35,600	900
Lump Sums and Death Grants	-7,000	-6,900	100
Payments to and on account of leavers	-2,500	-7,200	-4,700
Administrative expenses	-700	-700	0
Total Expenditure on members	-46,700	-50,400	-3,700
<u>Net additions for dealings with members</u>	-1,200	-400	800
<u>Returns on Investments</u>			
Investment Income	7,500	7,500	-
Profit (losses)	35,000	35,000	-
Investment management expenses	-3,500	-3,500	-
Net returns on investments	39,000	39,000	-
Net increase (decrease) in the net assets	37,800	38,600	800
Asset Values	1,012,293	1,216,900	
Liabilities	-1,189,704	-1,213,065	
Funding Level	85.1%	100.32%	

6. London Collective Investment Vehicle (LCIV) Update

6.1 The LCIV is the first fully authorised investment management company set up by Local Government. It aims to be the LGPS pool for London to enable Local Authorities to achieve their pooling requirements.

6.2 Having been set up in 2015, LCIV launched a number of funds which were seeded by London Funds. At 31 December 2020, London CIV assets under management was £10.75 billion which is a rise of 12% compared to the previous quarter. Some of this increase is due to investments into the Global Equity Core Fund.

6.3 The table below provides members with a breakdown of the LBBD Pension Funds holdings in LCIV as at 31 December 2020.

Fund	Manager	Value of Holdings (£000)	% of Pension Fund
Global Alpha Growth Fund	Baillie Gifford	£305,736	25.1
Real Return Fund	Newton	79,867	6.6
Global Total Real Fund	Pyrford	108,659	8.9
Total		494,262	40.6

6.4 The funds passive investment can also be accessed via the London CIVs passive equity fund, however there is a cost to transfer so the fund remains invested with UBS. The fund is also considering further investments into the CIV's equity funds in the current strategic asset allocation review.

7. Consultation

7.1 Council's Pension Fund governance arrangements involve continuous dialogue and consultation between finance staff and external advisers. The Finance Director and the Fund's Chair have been informed of the commentary in this report.

7.2 With regard to the Investment Consultants Strategic Objectives Review, the Independent Advisor has been closely and specifically consulted. The closed Appendix to this report has been prepared based on a self-assessment prepared by the Funds Investment Consultant Hymans Robertson which was reviewed and scrutinised by the Independent Advisor as well as Fund Officers.

8. Financial Implications

Implications completed by Philip Gregory, Finance Director

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 the Fund is supported and monitored by the Pension Board.

9. Legal Implications

Implications completed by Dr. 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.

List of appendices – Appendix 1 – Performance Review
(Private & Confidential – Agenda item 10)

Background Papers Used in the Preparation of the Report: None