

PENSIONS COMMITTEE

14 December 2021

Title: Administration and Governance Report	
Report of the Managing Director	
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: Philip Gregory, Finance Director	
Accountable Strategic Leadership Director: Claire Symonds, Managing Director	
Summary <p>This report provides Members with an update on any administration and governance changes that have occurred and the potential impact that these changes may have on the Pension Fund. The report also provides an update on the Fund's one year and three-year cashflow forecast and on the London Collective Investment Vehicle (LCIV) as the Fund moves towards more pooled investments.</p> <p>The report includes two appendices which are in the exempt section of the agenda as they contain commercially confidential information (relevant legislation: paragraph 3 of Part I of Schedule 12A of the Local Government Act 1972), and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.</p>	
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 2021 to 31 March 2024,iii. the London CIV Update, andiv. Pension Administration Software Tender. <p>The Committee is recommended to agree:</p> <ol style="list-style-type: none">v. Changes to the date and approach for Committee Member Training; andvi. Investment Consultants Strategic Objectives for 2022.	
Reason(s)	

1. Introduction

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

- i. Pension Fund Budget 1 April 2021 to 31 March 2024,
- ii. Cash flow to 30 September 2021,
- iii. London CIV update,
- iv. Pension Administration Software Tender,
- v. Committee Training, and
- vi. Investment Consultants Strategic Objectives Review

2. Pension Fund Budget 1 April 2021 to 31 March 2024

2.1 Table 1 below provides Members with the Fund's three-year budget to 31 March 2024.

Contributions	2021/22 Budget	2022/23 Budget	2023/24 Budget
Opening Market Value	1,281,890	1,341,280	1,400,650
Employee Contributions			
Council	7,700	7,700	7,700
Admitted bodies	640	620	600
Scheduled bodies	1,950	2,000	2,050
Employer Contributions			
Council	25,000	26,000	26,000
Admitted bodies	2,600	2,500	2,400
Scheduled bodies	7,700	7,750	7,800
Pension Strain	1,000	1,000	1,000
Transfers In	3,500	3,500	3,500
Total Member Income	50,090	51,070	51,050
Expenditure			
Pensions	-36,500	-37,500	-38,500
Lump Sums and Death Grants	-6,500	-6,500	-6,500
Transfers Out	-3,500	-3,500	-3,500
Administrative expenses	-700	-700	-700
Total Expenditure on members	-47,200	-48,200	-49,200
Net dealings with members	2,890	2,870	1,850
Returns on Investments			
Investment Income	11,000	11,000	11,000
Profit (losses)	50,000	50,000	50,000
Investment management expenses	-4,500	-4,500	-4,500
Net returns on investments	56,500	56,500	56,500
Net increase (decrease) in assets	59,390	59,370	58,350
Closing Market Value	1,341,280	1,400,650	1,459,000

- 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 to the various subsidiary companies. The Council contribution will increase from 22.0% in 2021/22 to 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.
- 2.3 Pension payments are forecast to increase due to an increase in the number of pensioners as well as to reflect a pension increase of 0.5% for 2021/22. An increase in management expenses is being forecasted in 2021/22 as asset values have increased thus increasing the expenses. Overall, the Fund is expected to be cashflow positive, although relatively marginally, for net dealings with members and also cashflow positive if investment income and management expenses are included.

3. Cash flow to 30 September 2021

- 3.1 Table 2 below provides Members with the Fund's Cash flow to 30 September 2021.

	2021/22 Budget £000's	2021/22 Forecast £000's	Over / Under £000's
<u>Contributions</u>			
Employee Contributions			
Council	7,700	8,187	487
Admitted bodies	640	503	-137
Scheduled bodies	1,950	1,890	-60
Employer Contributions			
Council	25,000	26,581	1,581
Admitted bodies	2,600	2,204	-396
Scheduled bodies	7,700	7,364	-336
Pension Strain	1,000	700	-300
Transfers In	3,500	1,862	-1,638
<u>Total Member Income</u>	50,090	49,292	-798
<u>Expenditure</u>			
Pensions	-36,500	-36,111	389
Lump Sums and Death Grants	-6,500	-6,738	-238
Payments to and on account of leavers	-3,500	-3,612	-112
Administrative expenses	-700	-700	0
Total Expenditure on members	-47,200	-47,162	38
<u>Net additions for dealings with members</u>	2,890	2,130	-760
<u>Returns on Investments</u>			
Investment Income	11,000	11,000	0
Profit (losses)	50,000	100,000	50,000
Investment management expenses	-4,500	-4,500	0
Net returns on investments	56,500	106,500	50,000
Net increase (decrease) in the net assets	59,390	108,630	49,240
Asset Values	1,341,280	1,401,074	59,794
Liabilities	1,292,444	1,320,616	28,172
Funding Level	103.78%	106.09%	2.31%

4. London Collective Investment Vehicle (LCIV) Update

- 4.1 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.
- 4.2 Having been set up in 2015, LCIV launched a number of funds which were seeded by London Funds. On 30 September 2021, the total assets deemed pooled were circa £25.9 billion, of which £12.9 billion are in funds managed by LCIV. Assets under management in public markets via LCIV's Authorised Contractual Scheme (ACS) stood at £12.6 billion and drawn down assets in private market funds totalled £347.8 million. Over Q3, a further £387.5 million of commitments were allocated to private markets, bringing a total of commitments raised by private market funds as at Q3 to £1.8 billion. The value of 'pooled' passive assets was £13 billion, with £9.7 billion managed by Legal and General Investment Management and £3.3 billion managed by BlackRock.
- 4.3 The table below shows the Fund's holdings in LCIV as at 30 September 2021.

Fund	Manager	Holdings (£000)
Global Alpha Growth Fund	Baillie Gifford	332,757
Real Return Fund	Newton	82,595
Global Total Real Fund	Pyrford	111,242
Total		526,594

- 4.4 The funds passive investment could be transferred to LCIV, however there is a transfer cost, so funds remain with UBS. If they were transferred to LCIV, this would increase the percentage of assets through the LCIV from 38% to 57%. The fund is considering further investments into LCIV's equity funds in the strategic asset allocation review.

5. Private Market Funds

- 5.1 £63m in drawdowns has occurred across Private Debt Fund, Infrastructure and Inflation Plus in Q3. In addition, there was a second close for the LCIV Renewable Infrastructure Fund in July 2021 taking the number of investors from five to ten and the committed assets from £435m to £682.5m.
- 5.2 LCIV have committed 74% of the existing investors' commitments to four primary funds have deployed 7.5% or £51.6 million of the capital through to 30 September 2021. It is estimated that the fund will be c.10% drawdown by the end of this year.
- 5.3 The Infrastructure Fund had one close in October 2019 with £399m from six investors. The manager, Stepstone, has committed 75% of the existing investors' commitments to primary funds and deployed 27% of this total. There have been no commitments to primary funds year to date.
- 5.4 The Inflation Plus Fund invests in UK real estate long income. Since inception in June 2020, LCIV have held two closes with a total of £207m from three investors. The investment manager, Aviva, is currently working on a transaction and it is expected that this Fund will be fully funded by year-end.

5.5 The LCIV Private Debt Fund's first close was in March 2021 with £290m from three investors. As of 30 September 2021, 32% of the total commitment, or £91.5m, was drawdown. LCIV expect a second close of £245m with four additional investors during Q4 of 2021. Looking ahead, LCIV anticipate a 3-year investment period for this Fund and an 8% drawdown per quarter over 12 quarters. In monetary terms LCIV expect this 8% per quarter drawdown to be approximately £130m, and due to its very nature can be "lumpy" when calls are made based on how the managers wish to invest.

5.6 Since its inception The London Fund has held three closes with total commitments no at £195m from two investors. LCIV had success at the recent Investment & Pensions Real Estate Awards 2021 that were held in Copenhagen in September, with The London Fund receiving its first award in the "Newcomer" category. LCIV continue to review the pipeline of investments for this Fund which will help alleviate the housing and infrastructure challenges facing London and, at the same time, generate sustainable returns combined with positive social and environmental outcomes for Londoners, thereby creating a double bottom line.

6. Pooling Strategy

6.1 Feedback from LCIV Client Funds responses to the September 2021 MHCLG Annual Survey on pooling suggests that:

- overall pooling ratio will increase by 14% from March 2021 to March 2025 to 67% broken down as an increase of 6% of the pooling ratio by March 2022, and a further increase of 8% by March 2025.
- By March 2025, LCIV anticipate 29 of the 32 of LCIV Client Funds will have at least a 50% pooling ratio.

6.2 During this period:

- 12 Funds are looking to have at least 75% of pension fund assets pooled.
- 11 Funds plan to increase their current pooling ratio from between 20% to 48%,
- A further 11 Funds are projecting an increase from between 5% to 19%, and
- 8 Funds have indicated their pooling ratio will remain unchanged / minor decline.

6.3 The LBBD fund is expecting to increase its allocation to nearly 75%, with only illiquid investments likely to not be invested through LCIV. However, this will only occur if the funds available through LCIV cover the asset allocation requirement of the Fund and then the fund manager are of sufficient quality.

7. Pension Administration Software Tender

7.1 Officers have reviewed the Fund's software provision to manage the Fund's administration requirements, specifically looking at member self-service. Unfortunately, the costs being quoted do not provide value for money and will require the Fund to pay significantly more (£200k over 3 years) than the potential benefits from staff savings.

7.2 A further review will be carried out in 2022 following the triennial valuation data collection exercise, with a range of options investigated.

8. Committee Training

- 8.1 Having previously agreed a programme of training sessions, Members at the meeting in September 2021 agreed a series of revised training dates, the first of which on Environmental, Social & Governance (ESG) was originally due to be delivered in October 2021. This was delayed initially to November, and subsequently was undertaken prior to this meeting. Details as to the next steps which formed part of the presentation at that training session were put forward for approval by Members.
- 8.2 A number of other asset classes were to be covered as part of individual training sessions as part of the Fund's strategy review. To reduce the number of training sessions it is recommended that training is provided covering all the assets classes, with a training date of sometime in early February proposed. The training will cover:
1. Private debt,
 2. DGFs,
 3. Global and residential property, and
 4. Multi-asset Credit.
- 8.3 The Chair will be consulted about a date, and this will be subsequently emailed to Members before the Christmas and New Year holiday break. The training will take approximately 90 minutes.

9. Investment Consultants Strategic Objectives Review

Introduction and Background

- 9.1 The Fund is required, under Part 9 of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019, to provide a Compliance Statement (CS) confirming compliance with Part 7 of the Order which requires the Fund to set Strategic Objectives for its investment consultancy provider. The CS 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.
- 9.2 The Fund must ensure it takes "proper advice" in accordance with the LGPS (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.
- 9.3 Hymans Robertson undertook a self-evaluation of their performance against the Objectives for 2020 and have provided an update, which is included as appendix 1. A subsequent evaluation has been carried out by officers for 2021 and this is contained in the confidential Appendix 2 to this report.
- 9.4 To comply with The Order the Fund is required to report back to the Competition and Markets Authority by 7 January 2022. The Strategic Objectives for Hymans Robertson, for the period 15 December 2021 to 14 December 2022, 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.

10. Consultation

- 10.1 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.
- 10.2 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.

11. Financial Implications

Implications completed by: Philip Gregory, Finance Director

- 11.1 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.

12. Legal Implications

Implications completed by: Dr. Paul Feild Senior Governance Solicitor

- 12.1 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.

13. Other Implications

- 13.1 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:

Appendix 1: CMA objectives for consultants (Hymans Robertson) (exempt document)

Appendix 2: CMA objectives – London Borough of Barking and Dagenham Pension Fund (exempt document)