

London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 23 July 2020

Subject: Pension Fund Business Plan, Budget and PPIC Work Plan for 2020/21

Cabinet Member: Cllr Maguire

Executive Director: Fay Hammond

Key Decision: []

Purpose of Report

1. The purpose of this report is to review the business plan for the Pension Fund that outlines the Fund's goals and objectives in delivering the Council's statutory function as the administering authority of the London Borough of Enfield Pension Fund.
2. This report also presents the budget for the Pension Fund for 2020/21 along with the outturn for 2019/20. It considers income and expenditure from various sources and the impact on these for the Pension Fund in the next financial year.
3. The Executive Director of Resources is the Section 151 Officer and therefore has a statutory responsibility for the proper financial affairs of the Council including Fund matters.
4. The London Borough of Enfield Pension Fund represents an asset to the Council in terms of its ability for attracting and retaining staff who deliver services to residents. The adoption of a Work Plan should lead to more effective management of the Fund.
5. A significant element of the Council's budget is the employer's contribution to the Fund. Therefore, any improvement in the efficiency of the Fund that leads to improvement in investment performance or cost savings will likely reduce contributions from the Council and release funds for other corporate priorities.

Proposal(s)

6. Pension Policy and Investments Committee are recommended to:
 - a) note and approve the Business Plan attached as Appendix 1 to this report;
 - b) note and approve the revised work plan for 2020/21 attached as Appendix 2; and

- c) note and approve the Revenue Budget for 2020/21 attached as Appendix 3.

Reason for Proposal(s)

7. Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other scheduled bodies as defined in the Regulations. The Regulations also empower the Fund to admit employees of other defined (e.g. other public bodies, housing corporations) bodies into the Fund.
8. The proposed business plan and budget for the Fund has been put together to assist in the management of the Fund and to ensure that the Council is able to perform its role as the administering authority in a structured way. The Business Plan and the budget are not intended to cover all aspects of Pension Fund administration and management; rather they are designed to assist with meeting part of its delegated function as administering authority to the Fund.
9. The Pension Policy and Investment Committee is charged with meeting the duties of the Council in respect of the Pension Fund. Therefore, it is appropriate that the Committee formally adopts a work plan to assist with the discharge of its duties.

Relevance to the Council's Corporate Plan

10. Good homes in well-connected neighbourhoods.
11. Build our Economy to create a thriving place.
12. Sustain Strong and healthy Communities.

Background

OVERVIEW OF THE WORK OF THE COMMITTEE

13. The Council has specific delegated functions that it has to fulfil as the administering authority to the Pension Fund. This requires that a number of monitoring and management activities are undertaken to ensure that it fully discharges its oversight and governance responsibilities to the Fund.
14. The key decision making for, and management of, the Fund has been delegated by the London Borough of Enfield (the Council) to a formal Pension Committee, supported by officers of the Council and advisers to the Pension Fund. The Section 151 Officer has a statutory responsibility for the proper financial affairs of the Council including Fund matters. A local pension board is in place to assist with:
 - securing compliance of Fund matters and
 - ensuring the efficient and effective governance and administration of the Fund.

15. It is appropriate that the Committee should set out how it intends to fulfil its obligations as the delegated authority appointed by the Council to be responsible for the Fund. Adopting a planned approach should make monitoring easier for the Committee and ensure that activities critical to the effective management of the Fund are being undertaken.
16. **The primary objectives** of the Fund are sub-divided into specific areas of ***governance, funding, investments, administration and communications*** which are covered in turn below.
17. **Governance Objectives**
 - i) All staff, Pension Board and Pension Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.
 - ii) The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties.
 - iii) To understand and ensure compliance with all relevant legislation.
 - iv) To ensure the Fund aims to be at the forefront of best practice for LGPS funds
 - v) Ensures the Fund manages Conflicts of Interest
18. **Funding Objectives**
 - vi) To ensure the long-term solvency of the Fund.
 - vii) To help employers recognise and manage pension liabilities as they accrue.
 - viii) To minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so.
 - ix) To use reasonable measures to reduce the risk to other employers and ultimately to the Council Taxpayer from an employer defaulting on its pension obligations. (Including: addressing the different characteristics of disparate employers or groups of employers to the extent that this is practical and cost effective).
19. **Investment Objectives**
 - x) Optimising the return on investment consistent with a prudent level of risk
 - xi) Ensure that there are sufficient assets to meet the liabilities as they fall due (i.e. focus on cash flow requirements)
 - xii) Ensure the suitability of assets in relation to the needs of the Fund (i.e. delivering the required return).
 - xiii) Ensuring that the Fund is properly managed (and where appropriate being prepared to change).
 - xiv) Set an appropriate investment strategy for the Fund to allow the Administering Authority to seek to maximise returns (and minimise the cost of benefits) for an acceptable level of risk'). Ensure return seeking assets are in line with Funding objectives.
20. **Administration Objective**
 - xv) To deliver an efficient, quality and value for money service to its scheme employers and scheme members.

21. **Communications Objective**

Ensure that all stakeholders are kept informed of developments within the Pension Fund. Ensuring that all parties are aware of both their rights and obligations within the Fund.

WORK PLAN

22. In designing the work plan, the priorities of the Council as the administering authority of the Fund have been considered and incorporated into the Fund Business Plan. The Pension Policy and Investment Committee Work Plan has therefore been developed using the business plan attached as appendix 1 to this report.
23. Following on from our ESG position with an increased expectation from cabinet/council, the Committee need to define ESG targets, develop and issue responsible investment policy to assist in monitoring the Fund ESG positions. Two workshops will be dedicated to work on this prior to September and November meetings.
24. An annual Work Plan will be presented to the Committee for agreement. The Work Plan should be presented to the Committee by the last Committee meeting of the prior financial year to which the Work Plan applies.

PENSION FUND REVENUE ACCOUNT

25. Members are requested to note the pension fund's Revenue Account position and approve the proposed budget for 2020/21 set out in Appendix 3.
26. **2019/20 Actual expenditure** - The estimates for the Pension Fund can be difficult to predict because of the uncertainty surrounding a number of aspects such as transfer values, death grants, and volatility in investment markets. Total expenditure of £45.2m was budgeted for in 2019/20; the actual amount as at 31st March 2020 was £49.2m. This indicates an increase in payments.
27. **2019/20 Actual income** – Total income of £49.5m was budgeted and £49.2m was received as at 31st March 2020. £45.9m budget has been set for 2020/21, as the result of 2019 triennial valuation brought about a decrease of some 4% on employer contributions.
28. **2020/21 Proposed Budget** – As indicated above, the budget can be difficult to predict however the following paragraphs set out some of the assumptions behind the proposed 2020/21 budget estimates set out in Appendix 3.

a) Contribution Receivable

The budget figure is based on 2019/20 activity levels using the contribution rate as stipulated by the actuary plus a 2.5% to reflect the pay award for 2020/21. The Fund is in surplus and there is an overall reduction of some 4% in respect of employers' contribution hence contribution value for 2020/21 is less.

b) Transfer Values In

The level of transfers of staff in and out of the fund is not subject to control by the Council. Transfer values vary significantly depending on length of service, salary and can be either payable or receivable by the authority. It is not possible to make reliable forecasts of the financial effect of transfer activity.

c) Benefits Payable

For 2020/21, the budget figure is based on 2019/20 activity levels with a 1% Pensions Increase plus a year on year increase in the number of pensioners by 2% has been applied.

d) Payments to account of leavers

The level of transfers of staff in and out of the fund is not subject to control by the Council. Transfer values vary significantly depending on length of service and salary and can be either payable or receivable by the authority. It is not possible to make reliable forecasts of the financial effect of transfer activity.

e) Administrative and other expenses borne by the scheme

These costs are estimated on the basis of planned workloads with a 3.5% allowance for inflation. Costs include officers' time, the cost of provision of accommodation and IT facilities, bank charges, training for officers and members of the pension committee and pension board and professional advisers' fees.

f) Investment Income

Investment Income is assumed at 4% on average assets valuation of £1.1 billion and over 3/4 will be subsequently re-invested by the Fund Managers and also investment income is subjected to tax. This was further reduced based on declaration of some organisations declaring no dividends payments.

g) Change in Market Value of Investments

An investment of £1,168m is assumed to decrease by 10% due to assumed correction of asset price forecast for 2020/21. (As the economists has been saying that we are in uncharted waters). Prices for sovereign, corporate and high-yield bonds and equities are at, or near, record levels. The ultralow interest rates policy and the massive quantitative-easing programmes of the G3 central banks (the US Federal Reserve, the European Central Bank and the Bank of Japan) over the past decade. The combined return of investment income and capital growth for 2020/21 net assets has been assumed to be - 8.5% per annum.

h) Fund Managers Fees

Fund managers' fees are calculated at an average rate of 0.475% on average assets valuation of £1.1billion.

i) Global Custodian Fees

from level of current activities, the fee is set at £60,000 as per fees schedule.

Safeguarding Implications

29. The report provides clear evidence of sound financial management, efficient use of resources, promotion of income generation and adherence to Best Value and good performance management.

30. Public Health Implications

31. The Enfield Pension Fund indirectly contributes to the delivery of Public Health priorities in the borough.

Equalities Impact of the Proposal

32. The Council is committed to Fairness for All to apply throughout all work and decisions made. The Council serves the whole borough fairly, tackling inequality through the provision of excellent services for all, targeted to meet the needs of each area. The Council will listen to and understand the needs of all its communities.

Environmental and Climate Change Considerations

33. There are no environmental and climate change considerations arising from this report.

Risks that may arise if the proposed decision and related work is not taken

34. A Business plan, work plan and budget should result in a more efficient process of managing the Pension Fund.
35. The adoption of a work plan will minimise risks relating to the management of the Fund and should assist in managing down the risk of non-compliance with the Council's obligations under the Regulation as the administering authority of the London Borough of Enfield Pension Fund.
36. Lack of robust governance inevitably involves a degree of risk. The successful identification, monitoring and control of risk are therefore central to the Council's pension fund management.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

37. Not approving the report recommendations and not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Enfield Pension Fund.

Financial Implications

38. This report revised the work plan with updated timetable for the development of the Fund's 2020 Investment Strategy review. The development of a robust investment strategy helps the Fund to take an ordered and prudent approach to the management of its assets, helping to manage the long term costs associated with the Pension Fund.
39. Spending time developing the investment strategy helps to ensure that the Committee are fulfilling their responsibilities as quasi Trustees of the Fund and that the Fund's investment objectives and policies are clearly set out in line with the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016.

Legal Implications

40. Administering authorities are now bound by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which have replaced the 2009 Regulations. These regulations set out an administering authority's statutory duties in ensuring the proper administration and management of its pension fund.
41. The Council must take proper advice at reasonable intervals about its investments and must consider such advice when taking any steps in relation to its investments.
42. One of the functions of the Pension Policy and Investment Committee is to meet the Council's duties in respect of investment matters. It is appropriate having regard to these matters, for the Committee to receive information about budgetary matters. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.
43. Members of this Committee are required by the Council's Constitution to consider pension matters and meet the various statutory obligations and the duties of the Council. This Work Plan provides for certain statutory requirements to be met and for members to be well trained and kept up to date and thus fit for purpose.
44. When making decisions regarding investment of pension funds, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

Workforce Implications

45. The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will allow the Council to meet this obligation easily and could also make resources available for other corporate priorities.

Property Implications

46. None

Other Implications

47. None

Options Considered

48. The development and implementation of a work plan should ensure that a structured approach is in place for the monitoring and management of the Pension Fund. This should in turn ensure that the Council meets its statutory obligations as administering authority to the Fund. However, the Committee is under no obligation to adopt a work plan in carrying out its duties.

Conclusions

49. The performance of the Pension Fund investments affects the required level of contributions due from employers.

50. Sound financial management of the Pension Fund, including budget-setting, helps ensure that the Pension Fund is run in an efficient and cost-effective manner. Poor management of the Pension Fund finances would result in increased costs, which would need to be met through higher employer contributions to the Pension Fund.

51. The headline figures are that, during the financial year 2020/21, we are estimating that Enfield PF will pay £36.9m in pensions and receive £50.4m in contributions from employers and employees. The Fund has a value of £1.168bn at 31 March 2020. The proposed internal administration costs of £1.035m and £5.380m of investment management charges of external managers represent a cost of £274.68 per member of the scheme. Taken separately the external investment management costs are approximately £225.11 per member or 0.475% of assets under management.

52. The administrative and investment management expenses budget for 2020/21 at £6.4m is lower than the outturn for 2019/20, due to a decrease in investment management charges owing to market depreciation forecast for the Fund assets for this financial year.

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Appendices

Appendix 1 – Enfield Pension Fund Business Plan

Appendix 2 – Pension Policy and Investment Committee Work Plan for 2020/21

Appendix 3 – Enfield Pension Fund Revenue Budget for 2020/21

Background Papers - None

BUSINESS PLAN 2020-2023

In order to meet the objectives of the Pension Fund, the Pensions Board has to review the business plan and the Pensions Committee has to review and agree the business plan for the period 2020-2023. This has to be put into the context of a period of significant uncertainty for the Fund, which reflects not just ongoing volatility in investment markets, but also measures for structural reform which could have a fundamental impact on the overall management of the Fund.

The purpose of the business plan is to:

- a) explain the background and objectives of London Borough of Enfield for the management of the Enfield Pension Fund
- b) document the priorities and improvements to be implemented by the pension administration service during the next three years to help achieve those objectives
- c) enable progress and performance to be monitored in relation to those priorities
- d) provide staff, partners and customers with a clear vision for the next three years.

Set out in the table below is the three year business plan for the Pension Fund:

	2020/21	2021/22	2022/23	Primary Objective Reference (s)
Governance Objectives				
Draft Pension Fund Accounts	March - May	March - May	March - May	1,2,3,7,13,15,16
Approve Final Pension Fund Annual Report & Accounts	June - November	June - November	June - November	1,2,3,7,13,15,16
Employer Forum	November - January	November - January	November - January	3,4,7,8,9,15,16
Review Risk Register	Quarterly	Quarterly	Quarterly	1,2,5,6,7,8,9,10,11,12,13
TPR Code of Practice	Quarterly	Quarterly	Quarterly	1,2,3,4,5
Governance Policy Review	December - March	December - March	December - March	1,2,3,4,5
Self-Assessment & Review of Advisers	December - March	December - March	December - March	1,2,3,4,5
Induction Training for New Members	May – July (As Required)	May – July (As Required)	May – July (As Required)	1, 2, 4, 15
Member’s Training	Quarterly	Quarterly	Quarterly	1,2,4,15
Training Policy Review	November – February	November – February	November – February	1,3,4
				Primary

	2020/21	2021/22	2022/23	Objective Reference (s)
Pensions Board –Annual Reporting	Mar - July	Mar - July	Mar - July	1 - 16
Review Performance, funding and budget	Quarterly	Quarterly	Quarterly	1 - 16
AVC Review	September – January		September – January	1,2,3,4,5
Review Reporting Breaches Policy	September	September	September	10,15,16
Review Conflicts of Interest Policy Review	September	September	September	5
Creation & Review Cessation Policy	April - June	April - June	April - June	5,6,7,8,9,15,16
Funding Objectives				
Preparation and Update of Actuarial Valuation	As Required	As Required	As Required	5,6,7,8,9,15,16
Review of Funding Strategy Statement	As Required	As Required	As Required	5,6,7,8,9,15,16
Investments Objectives				
Review Investment Strategy Statement	February - September	As required	As required	1,3,10,11,12,13,14,15,16
Investment in Low Carbon	July - September			1,2,4,10,11,12,13,14,15
Investment in Clean Energy, Renewable Energy and or Private Debt	July - December			1,2,4,10,11,12,13,14,15
Review Investment Consultancy Contract	November / December	June	June	5,10,11,12,13,14,15
Review Actuarial Services Contract	September	September	September	5,10,11,12,13,14,15
Strategic Asset Allocation – Regular Review	Ongoing	Ongoing	Ongoing	1,4,6,8,9,10,11,12,13,14
Carbon Footprint Audit	December - June	December - June	December - June	5,6,7,8,9,15,16
Pension Fund Treasury Management Strategy	February - June	February - June	February - June	1,9,10,11,12,13,14,15
Individual Manager Review	Quarterly	Quarterly	Quarterly	1,2,4,10,11,12,13,14,15
Asset/Liability Monitoring	Ongoing	Ongoing	Ongoing	5,10,11,12,13,14,15,16
Collaborative working-London CIV	Ongoing	Ongoing	Ongoing	1,2,4,10,11,12,13,14,15
				Primary

	2020/21	2021/22	2022/23	Objective Reference (s)
Pension Administration				
Pension Administration Strategy	April - June	January – March	January – March	1,2,3,7,9,15,16
GMP Reconciliation	April-September	April-September		1,2,3,15,16
Employer data Improvements	Ongoing	Ongoing	Ongoing	1,2,3,7,9,15,16
Administering Authority Discretions Review	April - June	April - June	April - June	1,2,3,4,5,9,10,15,16
Admitted Bodies Policy	September	September	September	1,2,3,4,5,9,10,15,16
Employing Authority Discretions	April - June	April - June	April - June	1,2,3,4,5,9
Communications				
Annual Benefit Statements	August	August	August	15,16
Auto-Enrolment /Workplace Pensions	Ongoing	Ongoing	Ongoing	1,2,3,15,16
Communications Policy Review	January-March	January-March	January-March	1,2,3,15,16
Annual General Meeting (AGM)	September/October	June/July	June/July	1,2,3,4,7,8,9,15,16