

London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 27 January 2022

Subject: Enfield Pension Fund Cashflow Forecast 2022/23 to 2024/25

Cabinet Member: Cllr Maguire

Executive Director: Fay Hammond

Key Decision: []

Purpose of Report

1. This report presents the budget for the Pension Fund for 2022/23 along with the 2021/22 outturn position as at 31st December 2021. It considers income and expenditure from various sources and the impact on these for the Pension Fund in the next financial year.
2. The London Borough of Enfield Pension Fund is open to new entrants however it is maturing fast; hence this report is an update on the Pension Fund's projected cash flow forecast for 2022/23 to 2024/25. The Fund is projecting a £0.930m projected deficit on its income and expenditure at the end of the financial year without any cash draw down from investments. The Fund is expecting a projected cash short fall in 2022/23 and 2024/25 as the Fund expenditure exceeds the income from contributions.
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 review of the cashflow 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 Revenue Budget for 2022/23 (Appendix 1); and

- b) note the cashflow forecast from operational activities for 2022/23 and 2023/24 attached as Appendix 1.

Reason for Proposal(s)

7. The London Borough of Enfield Pension Fund is part of the wider Local Government Pension Scheme (LGPS). The Scheme as with other LGPS schemes is funded and distinct from 'pay as you go' schemes which are unfunded.
8. The Fund receives contributions and investment income from current members, employers and fund assets which is used to pay benefits as they fall due. Consequently, one of the main objectives of the Fund is to ensure that sufficient funds are available to meet all benefits as they fall due for payment. However, this objective may be jeopardised if the Fund does not maintain sufficient liquidity. The Pension Policy & Investments Committee is charged with meeting the duties of the Council in respect of the Pension Fund.

Relevance to the Council's Corporate Plan

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

Background

12. For a number of years, the Pension Fund has received considerably more in contributions than it has paid out in benefits and has therefore experienced strong positive cashflow. Despite ongoing budgetary pressures, active membership has increased thanks to Auto-enrolment and a shift from temporary to permanent staff contracts, whilst the Council's contribution rate has reduced to the over funded position of the Fund from 201 formal valuation outcome. During 2020/21, contributions received exceeded benefits paid by £4.343m, which is relatively consistent with previous years.
13. The outcome of the most recent (2019) valuation has been a reduction in the Council's contribution rate from 22.8% to 20% for 2020/21 to 2022/23. Contribution rates beyond this point will depend on the outcomes of 2022 and future valuations.
14. Additionally, ongoing reductions to the Local Government settlement mean that the Council remains under considerable financial pressure; whilst officers of the Fund are not currently aware of large scale plans for staff reductions, it is prudent to consider that these may be possible.
15. Although the scheme remains open, LGPS funds are beginning to mature, with increasing numbers of pensioners relative to their active membership. Large number of LGPS Funds are now cashflow negative, with many more predicted to become so in the short to medium term. The Fund's contribution

rate is at the lower end of those paid by the LGPS. However, given the ongoing budgetary pressures and planned contribution rate reductions over the next 3 years, it is appropriate to consider cashflow planning in the medium term, to ensure likely notable reductions in the Fund's cashflow are anticipated and plans made accordingly.

16. Increasing scheme maturity and reduced cashflows often necessitate changes to investment strategy. As open schemes, often with substantial deficits, LGPS Funds have tended to use strategies focused on growth, maintaining high allocations to equities. However, this is beginning to change, as deteriorating cashflows require an increased focus on income, to avoid becoming a forced seller of assets. Forward planning is therefore essential to ensure that any necessary changes are made in timely and orderly manner.

PENSION FUND REVENUE ACCOUNT

17. Members are requested to note the pension fund's Revenue Account position and approve the proposed budget for 2022/23 set out in Appendix 1.
18. **2021/22 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 £48.5m was budgeted for in 2021/22; the actual amount as at 31st December 2021 was £49.2m. This indicates an increase in payments.
19. **2021/22 Actual income** – Total income of £45.4m was budgeted and £39.2m was received as at 31st December 2021. £47.7m budget has been set for 2022/23.
20. **2022/23 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 2022/23 budget estimates set out in Appendix 1.

a) Contribution Receivable

The budget figure is based on 2020/21 activity levels using the contribution rate as stipulated by the actuary plus a 2.5% to reflect the pay award for 2022/23. The Fund is in surplus and there is an overall reduction of some 4% in respect of employers' contribution hence contribution value for 2022/23 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 2022/23, the budget figure is based on 2020/21 activity levels with a 1% per annum year on year Pensions Increase also a year on year 2% increase has been applied to the number of pensioners.

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 £1,406m is assumed to decrease by 10% due to assumed correction of asset price forecast for 2022/23. (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 2022/23 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 £1.5billion.

i) Global Custodian Fees

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

Safeguarding Implications

21. 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.

22. **Public Health Implications**

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

Equalities Impact of the Proposal

24. 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

25. 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

26. Reviewing and forecasting the Fund cash position should result in a more efficient process of managing the Pension Fund.
27. This will minimise risks relating to the management of the Fund and should assist in managing down liquidity risk and of non-compliance with the Council's obligations under the Regulation as the administering authority of the London Borough of Enfield Pension Fund.

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

28. 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

29. For a number of years, the Pension Fund has received considerably more in contributions than it has paid out in benefits and has therefore experienced strong positive cashflow. However, in light of ongoing budgetary pressures for the Council and the recent reduction in its contribution rate, it is prudent to ensure that the likely impacts of reduced cashflows into the Fund are understood and planned for.
30. Budget monitoring on a quarterly and annual basis along with the additional cashflow work to be undertaken by the Fund actuary will assist the Committee in understanding the full impact of potential changes as a result of any significant falls in membership numbers or planned changes in contribution rates. Whilst there are costs to carrying out monitoring exercises, these are negligible in comparison to the benefits of understanding the Fund's likely future cashflows and planning for these accordingly.

Legal Implications

31. The Pension Policy & Investments Committee has been given delegated authority to manage the Pension Fund; under the Council's constitution they must therefore 'set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and develop a medium term plan to deliver those objectives. Monitoring the Pension Fund's financial position including the prospects for cash flow helps the Committee to ensure that they are meeting their fiduciary role in the management of the Fund. Management of the Fund's solvency is a key objective across the short, medium and long term; the monitoring of cash flow performance is an important part of ensuring that objective is met.

Workforce Implications

32. 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

33. None

Other Implications

34. None

Options Considered

35. The Fund is bound by legislation to ensure that members of the Fund receive benefits as they fall due under the Fund's terms. Although the Fund is free to determine how best to fund its liabilities as they fall due. It is expected to meet such obligations to its retired members.

Conclusions

36. The performance of the Pension Fund investments affects the required level of contributions due from employers.
37. 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.
38. The headline figures are that, during the financial year 2022/23, we are estimating that Enfield PF will pay £49.4m in pensions and receive £47.7m in contributions from employers and employees. The Fund has a value of £1.460bn at 31 March 2021. The proposed internal administration costs of £945k and £7.925m of investment management charges of external managers represent a cost of £374.42 per member of the scheme. Taken

separately the external investment management costs are approximately £334.53 per member.

39. The administrative and investment management expenses budget for 2022/23 at £8.9m is lower than the outturn for 2020/21, due to a budgeted market depreciation forecast for the Fund assets for 2022/23.

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Date of report 30th December 2021

Appendices

Appendix 1: Enfield Pension Fund Revenue Budget for 2022/23 and
Cashflow Forecast For 2023/24 & 2024/25

Background Papers - None