

**London Borough of Enfield**

**PENSION BOARD**

**Meeting Date: 15 September 2022**

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**Subject: Enfield Pension Fund Business Plan and Budgetary Estimates for 2022/23**

**Cabinet Member: Cllr Leaver**

**Executive Director: Fay Hammond**

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**Purpose of Report**

1. This report presents the Pension Fund budget for 2022/23 along with the 2021/22 outturn position as of 31<sup>st</sup> March 2022. It considers income and expenditure from various sources and the impact of these on the Pension Fund cashflow forecast for the current financial year 2022/23 and 2023/24.
2. It also presents the approved Pension Fund Business Plan for the year, outlining 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.
3. The business plan and budget set out the direction of travel, objectives and targets to be achieved in the management of the Fund, and for the Council to be able to perform its role as the administering authority in a structured way.
4. 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.
5. 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.
6. 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.
7. 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 and 2023/24. The Fund is projecting a surplus of £544k on its income and expenditure at the end of

this financial year 2022/23 without any cash draw down from investments. Abd the Fund is expecting a projected cash short fall of (£970) in 2023/24 as the Fund expenditure exceeds the income from contributions.

### **Proposal(s)**

8. The Pension Board are recommended to:
  - a) note the Business Plan attached as Appendix 1 to this report;
  - b) note the Revenue Outturn for 2021/22, Revenue Budget for 2022/23 and the cashflow forecast from operational activities for 2023/24 attached as Appendix 2.

### **Reason for Proposal(s)**

9. 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.
10. 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.
11. 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.
12. 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.
13. This report is presented to the Board as one the core functions of the Board is to ensure the effective and efficient governance and administration of the Scheme.

### **Relevance to the Council's Corporate Plan**

14. Good homes in well-connected neighbourhoods.

15. Build our Economy to create a thriving place.
16. Sustain Strong and healthy Communities.

### **Background**

17. 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.
18. 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.
19. 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.
20. **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.
21. **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
22. **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).

**23. 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.

**24. Administration Objective**

- xv) To deliver an efficient, quality and value for money service to its scheme employers and scheme members.

**25. 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.

**PENSION FUND REVENUE ACCOUNT**

- 26. 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 due to the over funded position of the Fund from 2019 formal valuation outcome. During 2021/22, contributions received exceeded benefits paid by £3.249m, which is relatively consistent with previous years.
- 27. The outcome of the most recent (2019) valuation has been a reduction in the Council's contribution rate from 22.8% to 20.2% for 2020/21 to 2022/23. Contribution rates beyond this point will depend on the outcomes of 2022 and future valuations.
- 28. 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.

29. 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.
30. 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.
31. In order to meet the objectives of the Pension Fund, the Pension Policy & Investment Committee reviewed and agreed the business plan for the period 2022-2025 set at Appendix 1 at their last meeting of July 2022.

## **BUDGETARY ESTIMATES**

32. Members are requested to note the pension fund's Revenue Account position as at 31<sup>st</sup> March 2022 and note the budget for 2022/23 set out in Appendix 1.
33. **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 £45.9m was budgeted for in 2021/22; the actual amount as at 31st March 2022 was £53.1m, this indicates an increase of over £7m in payments. £53.2m budget has been set for 2022/23
34. **2021/22 Actual income** – Total income of £45.4m was budgeted and £54.9m was received as at 31st March 2022, with an outturn of under budget by £9.5m. £57.1m budget has been set for 2022/23.
35. **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 2021/22 activity levels using the contribution rate as stipulated by the actuary plus a 2.5% to reflect the pay award for 2022/23.

### ***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 2021/22 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 £1.4billion 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 £1,525m is assumed to decrease by 10% due to assumed correction of asset price forecast for 2022/23. 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**

36. 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.

37. **Public Health Implications**

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

**Equalities Impact of the Proposal**

39. 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**

40. 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**

41. A Business plan and budget should result in a more efficient process of managing the Pension Fund.

42. The adoption of a business plan and budget setting 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.

43. 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**

44. 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**

45. 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.

46. 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.

47. Budget setting on an annual basis along with the additional cashflow work undertaken would 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.

### **Legal Implications**

48. 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.
49. 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).
50. The Pension Policy and Investment 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'. It is appropriate having regard to these matters, for the Committee to receive information about budgetary matters.
51. 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.
52. There are no immediate legal implications arising from this report.

### **Workforce Implications**

53. 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**

54. None

### **Other Implications**

55. None

## Options Considered

56. None

## Conclusion

57. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties. 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.

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Date of report 29<sup>th</sup> August 2022

## Appendices

Appendix 1 – Enfield Pension Fund Business Plan

Appendix 2 – Enfield Pension Fund Revenue Budget for 2022/23

**Background Papers** - None

## BUSINESS PLAN 2022-2025

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 2022-2025. 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:

	2022/23	2023/24	2024/25	Primary Objective Reference (s)
<b>Governance Objectives</b>				
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

	2022/23	2023/24	2024/25	Primary 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	April - June		April - June	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
<b>Funding Objectives</b>				
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
<b>Investments Objectives</b>				
Review Investment Strategy Statement	February - September	As required	As required	1,3,10,11,12,13,14,15,16
Responsible Investment Policy Review	February - September	As required	As required	1,3,10,11,12,13,14,15,16
Monthly Meeting with Asset Managers	Ongoing	Ongoing	Ongoing	1,4,6,8,9,10,11,12,13,14
Investment in Paris Aligned and Alternative Fixed Income	April - June			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	June	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	Dec - June	Dec - June	Dec - 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
Investment Performance Review	Quarterly	Quarterly	Quarterly	1,2,4,10,11,12,13,14,15
Individual Manager Review	Monthly	Monthly	Monthly	1,2,4,10,11,12,13,14,15

	2022/23	2023/24	2024/25	Primary Objective Reference (s)
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
<b>Pension Administration</b>				
Pension Administration Strategy	April - June	January – March	January – March	1,2,3,7,9,15,16
McCloud Remedial Judgement Monitoring	September - December	June - December	June - December	1,2,3,7,9,15,16
GMP Reconciliation	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
<b>Communications</b>				
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)	January - March	June/July	June/July	1,2,3,4,7,8,9,15,16