

London Borough of Enfield

PENSION BOARD

Meeting Date: 15 December 2022

Subject: Enfield Pension Fund Quarterly Budget Outturn Report for September 2022

Cabinet Member: Cllr Leaver

Executive Director: Fay Hammond

Purpose of Report

1. This report presents the Pension Fund budget for 2022/23 along with the 2021/22 outturn position as of 31st 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. 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.
3. 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.
4. 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)

5. Pension Board are recommended to note the forecast and outturn position based on the cashflow forecast from operational activities for 2022/23, attached to this report as Appendix 1.

Reason for Proposal(s)

6. 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.

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.
9. This report is presented to the Board as one of 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

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

Background

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.

PENSION FUND REVENUE ACCOUNT

16. 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. For the reporting period contributions received exceeded benefits paid by just under £1m, which is relatively consistent with previous years.
17. 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.
18. 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 other 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.
19. 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.
20. 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 at their last meeting of July 2022.

BUDGETARY ESTIMATES

21. Members are requested to note the pension fund's Revenue Account position as at 30th September 2022 set out in Appendix 1.
22. **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.

23. **2022/23 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 £54.6m was budgeted for 2022/23, and £27.3m was expected to be expended by 30th September 2022. The actual amount as at 30th September 2022 was £25.7m, this indicates a reduction of £1.6m.

24. **2022/23 Actual income** – Total income of £60.1m was budgeted for the year and £30m was expected to be received by 30th September 2022. £32.4m was received as £6.7m was received in form of transfer value in.

Safeguarding Implications

25. 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.

26. Public Health Implications

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

Equalities Impact of the Proposal

28. 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

29. 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

30. A Business plan and budget should result in a more efficient process of managing the Pension Fund.
31. 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.
32. 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

33. 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

34. 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.
35. 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.
36. 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

37. 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.
38. 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).
39. 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.
40. 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.
41. There are no immediate legal implications arising from this report.

Workforce Implications

42. 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

43. None

Other Implications

44. None

Options Considered

45. None

Conclusion

46. 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 30th November 2022

Appendices

Appendix 1 – Enfield Pension Fund Quarterly Budget Outturn position as at September 2022

Background Papers - None