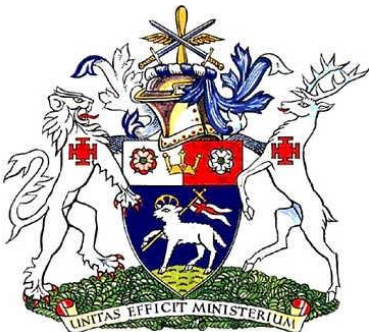


<p>Ben</p> 	<h2>Pension Fund Committee</h2> <h3>26 July 2021</h3>
Title	Pension Fund Costs and Expenses
Report of	Director of Finance
Wards	n/a
Status	Public with exempt appendices.
Urgent	No
Key	No
Enclosures	<p>Appendix 1 - Pension scheme costs year to 31.3.2021 Exempt</p> <p>Appendix 2 – Notes on costs and expenses Exempt</p> <p>Exempt enclosures - Not for publication by virtue of paragraphs 3 of Schedule 12A of the Local Government Act 1972 as amended. The enclosures contain information relating to the financial or business affairs of a particular body including the authority</p>
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<h2>Summary</h2>	
This report summarises the Pension Fund costs in the year to 31 March 2021, with a comparison to the previous year.	
<h2>Officer Recommendations</h2>	
(1) That the Committee note the scheme costs in the year to 31 March 2021.	

1. WHY THIS REPORT IS NEEDED

- 1.1 Pension fund costs are significant, £11.305 million in the year to March 2021. The attached breakdown (appendix 1) of costs is to enable the Committee to monitor scheme expenditure.
- 1.2 Attached to the paper are two appendices detailing costs in the year to 31 March 2021 with a comparison to the two previous years.
- 1.3 Costs charged directly to funds in which we invest, including transaction costs, are based on reports from managers and cannot be accurately verified. The reporting of costs is becoming standardised with the introduction of a widely used template for expense reporting. Part of the upward trend in costs is due to more complete reporting of costs. As most fees are based on the value of investments, the 11% increase in average values will have translated into a similar scale of increase in management fees. A further factor has been the shift from low cost passive equities to higher cost active equities, most relevant being LCIV emerging markets and the same will be true in 2021-22 as we invest in LCIV sustainable equities.
- 1.4 Costs which are invoiced, are reviewed by the Pension team and if necessary, discussed with the Director of Finance.
- 1.5 The increase in reported costs of £1.769 million is mainly due to the following:

Adams Street Private Equity- the manager has accrued but not received £0.828m of carried interest in the year compared with £0.072m last year. Other costs have also increased by £0.119m. As Adams Street charges are based on commitments, these costs appear high as the fund has only drawn \$10m of the \$67.5m commitment. Furthermore, costs in the previous year were only partial as the first drawdown was made in October 2019. Further details are provided in appendix 2.

LCIV Emerging Markets Equity- Overall costs have increased by £0.273 from the previous year, due to increased average values in 2020/21. The average holding increased from £10.957m to £58.306m, with the fee rate being 0.54%.

Legal and General internal costs – passive equities remain low cost at 0.09% of average value overall when compared with 0.13% last year. However overall cost has increased by £0.153m in year, due to increased investment values.

Aberdeen Standard Property- Overall costs have increased by £0.266m from 2019/20, due to an increase in average holding from £22.537m in 2019/20 to £29.277 in 2020/21, and the costs for 2019/20 only being for 9 months.

LBB recharges to the pension fund the cost of internal staff and also costs related to the outsourcing of pension administration services to Capita, and West Yorkshire Pension Fund. Costs in the year are shown in the table below:

	2019-20	2020-21	2021/22 Budget
	£'000	£'000	£'000
LBB Finance Staff	409	507	475
Other LBB Staff	190	330	322
Pension Admin Team	474	502	488
Pension Admin Projects	213	6	150
IT	14	21	21
Other	12	8	8
	1,312	1,374	1,465

Oversight of the pension administration contract moved from HR to Finance at the start of 2019 and three additional staff (Mark Fox, Gavin Roberts and Nigel Keogh) were recruited to the Finance team to manage the Capita administration relationship, and also the transition of administration to West Yorkshire Pension Fund. In addition, a new Assistant Finance Manager (Adam McPhail) was recruited half-way through 2020/21 to manage the new accounting arrangements as a result of the transition. The Pension Administration project work in both years relates to the reconciliation of GMP records with HMRC and the correcting of members records following these reconciliations. Following the completion of the transition to WYPF the Pension Team has reduced from five to four, supplemented by a graduate trainee for part of each year.

Hymans actuarial charges of £0.115m was a fall of £0.106m from 2019/20.

- 1.6 Reporting of costs to the Committee will help to ensure that these are properly scrutinised and challenged by officers prior to payment.
- 1.7 Internal Audit have recommended that the reporting of costs include reporting of contributions and benefits. The table below summarises contribution income and benefit expenditure in the last two years, together with budget for the year to March 2022.

	2019-20	2020-21	2021/22 Budget
	£'000	£'000	£'000
Employees' Contributions	11,543	11,898	12,255
Employers' Contributions			
Normal Contributions	30,948	37,083	37,825
Deficit Recovery Contributions	16,785	25,930	4,773
Augmentaion Contributions	4,142	4,072	4,100
Total Employers' Contributions	51,875	67,085	46,698
Total Contributions Recievable	63,418	78,983	58,953
Pensions	47,873	49,480	51,000
Commutation and Lump Sum			
Retirement Benefits	8,638	8,469	8,500
Lump Sum Benefits	909	984	1,000
Total Benefits Payable	57,420	58,933	60,500
Net Contributions Received	5,998	20,050	(1,547)

Contribution income exceeded benefits paid by £20.05 million in the last 12 months. Following the 2019 triennial valuation the standard contribution rate on average increased from 17.9% to 20.6% increasing standard contributions in 2020-21. Deficit contributions per the valuation schedule were due to fall from £16.0 million to £11.1 million in that year, but were boosted by the Council paying £14.0 million of advanced deficit contributions. The Council will offset £7.6 million of the advance payment in 2021-22 resulting in the Actuaries calculation of £12.3 million, reducing to £4.8 million of deficit contributions in 2021-22. Note that because the Council has a stabilised contribution rate, the amounts received never exactly match the Actuarial projections.

The impact of the movements in contributions receivable is that there is expected to be an outflow of £1.5 million in 21-22 from administration activity.

2. REASONS FOR RECOMMENDATIONS

2.1 The report is for noting.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None

4. POST DECISION IMPLEMENTATION

4.1 N/A.

5. IMPLICATIONS OF DECISION

5.1 **Corporate Priorities and Performance**

5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities.

5.2 **Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

5.2.1 The Pension Fund costs are ultimately reflected in the employers' contribution rates and good management of costs will help to control contribution rates.

5.3 **Social Value**

5.3.1 Membership of the Pension Fund ensures the long-term financial health of contributing employees on retirement.

5.4 **Legal and Constitutional References**

5.4.1 Constitution – Under article 7 one of the responsibilities of the Pension Fund Committee is 'To meet review and consider approval of the Pension Fund Statement of Accounts, and to 'monitor the administration of the pension fund. . A review of expenses falls within that remit.

5.4.2 There are no relevant legal references.

5.5 **Risk Management**

5.5.1 Monitoring of expenditure is a key element of protecting the assets of the pension fund.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation, marriage and civil partnership.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The public sector equality duty requires public authorities in carrying out their functions to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

5.7 **Consultation and Engagement**

5.7.1 Not applicable

5.8 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None