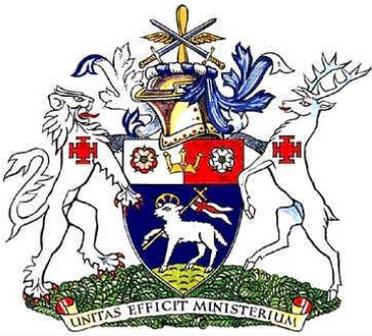


<p>0</p> 	<p style="text-align: center;">Pension Fund Committee 11 July 2022</p>
<p style="text-align: right;">Title</p>	<p>Pension Fund Costs and Expenses</p>
<p style="text-align: right;">Report of</p>	<p>Executive Director of Strategy and Resources</p>
<p style="text-align: right;">Wards</p>	<p>n/a</p>
<p style="text-align: right;">Status</p>	<p>Public with exempt appendices.</p>
<p style="text-align: right;">Urgent</p>	<p>No</p>
<p style="text-align: right;">Key</p>	<p>No</p>
<p style="text-align: right;">Enclosures</p>	<p>Appendix 1 - Pension scheme costs for 2021/22 (exempt) 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Exempt enclosures - Not for publication by virtue of paragraphs 3 of Schedule 12A of the Local Government Act 1972 as amended.</p>
<p style="text-align: right;">Officer Contact Details</p>	<p>Adam McPhail, Finance Manager adam.mcphail@barnet.gov.uk - 0208 359 7639</p>
<p style="text-align: center;">Summary</p>	
<p>This report summarises the Pension Fund costs for the year to 2021/22, with a comparison to the previous year.</p>	
<p style="text-align: center;">Officer Recommendations</p>	
<p>(1) That the Committee note the scheme costs for the year 2021/22.</p>	

1. WHY THIS REPORT IS NEEDED

- 1.1 Pension fund investment management fees and administration and governance costs are significant, £13.943 million for 2021/22, this report allows committee to assure themselves of its reasonableness. The majority of the in year costs related to investment management fees. The breakdown of costs in Appendix 1 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 2022 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 independently 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 disclosed costs is due to more complete reporting of costs. In addition, as most fees are based on the value of investments, the 16% increase in average value on quarterly valuations 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 structures, most relevant being switches to LGIM Future Worlds, LCIV emerging markets and LCIV sustainable equities.
- 1.4 Costs which are invoiced, are reviewed by the Pension team and if necessary, discussed with the Executive Director of Strategy and Resources.
- 1.5 The increase in reported costs of £2.155 million is mainly due to the following:

Adams Street Private Equity- Adams Street costs appear high as a percentage of money invested due to the fact that their costs are based on commitments, rather than invested amounts. As the fund committed approximately £40m (\$55m in USD denominated fund) to Adams Street Secondaries fund in year, the Adams Street Costs have increased by £1.39m.

LCIV Emerging Markets Equity- Overall costs have increased by £0.231 from the previous year, due to increased average holding in 2021/22. The average holding increased from £58.306m to £73.943m, with the fee rate being 0.54%.

IFM- The fund manager has charged £0.991m more in performance fees than in the previous year. This is due to the fund achieving a net return in 2021/22 of 16.5%, which is 2.2% higher than the previous year.

The fund has also made investments into new funds during the year, with total fees from these new funds being £0.644m.
- 1.6 LBB recharges to the pension fund the cost of internal staff. Costs in the year are shown in the table below:

	2020/21	2021/22	2022/23 Budget	
LBB Finance Staff	506,654	342,978	342,978	357,000
Other LBB Staff	330,231	302,438	302,438	315,000
Pension Admin Team	502,367	289,613	289,613	290,000
Pension Admin Projects	5,197	0	0	0
IT	20,966	20,966	20,966	21,000
Legal	7,462	7,164	7,164	7,500
Subscriptions	0	0	0	0
	1,372,877	963,159	963,159	990,500

Overall, the recharges are £410k less in 2021/22 than in the previous year. This is mainly due to the reduction of the previous administrators' fees as the contract ceased in 2020/21 (£0.279m in 2020/21). Also, the percentage recharged to the fund for the HR model was reduced from 10% in 2020/21 to 5% in 2021/22, resulting in a cost reduction of £99k. Finally, there were decreased staffing costs as two staff members left in year, as they were temporary to support the transfer to WYPF.

Pension Administration costs were charged directly to the fund by West Yorkshire Pension Fund, in 2021/22 these totalled £0.436m. The fee is low to what was expected, this is due to £0.071m being deducted from the 2021/22 fee as an adjustment to the 2020/21 invoice. In 2022/23 we expect the fee to be around £0.54m.

Hymans actuarial charges were £0.125m in 2021/22 (£0.115m in 2020/21).

- 1.7 Reporting of costs to the Committee will help to ensure that these are properly scrutinised and challenged by officers prior to payment.
- 1.8 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.

	2020/21 £000	2021/22 £000	2022/23 Budget £000	
Employees' Contributions	11,898		13,073	13,600
Employers' Contributions				
Normal Contributions	37,083		40,759	42,500
Deficit Recovery Contributions	25,930		4,023	4,100
Augmentaion Contributions	4,072		4,135	4,200
Total Employers' Contributions	67,085		48,917	50,800
Total Contributions Recievable	78,983		61,990	64,400

Pensions	49,480		51,384	53,500
Commutation and Lump Sum				
Retirement Benefits	8,469		10,479	11,000
Lump Sum Benefits	984		1,719	1,800
Total Benefits Payable	58,933		63,582	66,300

Net Contributions Received	20,050		(1,592)	(1,900)
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Benefits paid exceeded contribution income by £1.592 million in the last 12 months. The difference to last year is almost entirely attributable to the council's pre-payment of £21m in 2020/21. It is expected that benefit payments will continue to be greater than contribution income in 2022/23, reflecting the final year's pre-payment of deficit contributions (£8 million relates to 2022-23) in 2020-21 and an increase in retirements in the wake of the COVID-19 pandemic. The estimates for 2022/23 are made on the basis of prudence, as the increase between 2021/22 and 2020/21 are used for the benefit increase on all types of benefit. Whereas the estimates for contribution income are made purely on the current income increasing by the 4% for inflation.

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, income and expenditure and balance sheet or record of payments and receipts'. 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. ENVIRONMENTAL IMPACT

6.1 None

7. BACKGROUND PAPERS

7.1 None
