



**Report for:**  
**ACTION**

**Item Number:**

<b>Contains Confidential or Exempt Information</b>	Yes - Appendix 3 contains exempt information by virtue of para 3 in part 1 of schedule 12A to the Local Govt. Act 1972
<b>Title</b>	Pension Fund Budgetary Estimate and Work Plan for 2023/24
<b>Responsible Officer(s)</b>	Emily Hill, Strategic Director Resources (Section 151 officer)
<b>Authors</b>	Bridget Uku, Finance Manager Pensions & Treasury Ext 5981 Email: <a href="mailto:ukub@ealing.gov.uk">ukub@ealing.gov.uk</a>
<b>Portfolio</b>	Cllr Anderson - Inclusive Economy
<b>For Consideration By</b>	Pension Fund Panel
<b>Date to be Considered</b>	21 March 2024
<b>Implementation Date if Not Called In</b>	N/a
<b>Affected Wards</b>	N/a
<b>Area Committees</b>	N/a
<b>Keywords/Index</b>	Pension Fund Budgetary Estimate, Work Plan

**Purpose of Report**

This report outlines the work plan for the Council's functions as Administering Authority for the London Borough of Ealing's Pension Fund and details the 2024/25 Pension Fund revenue budgetary estimates. After allowing for investment income, the revenue account is forecast to remain cash positive with income exceeding expenditure by an estimated £33.065m in 2023/24 and £34.069m in 2024/25.

## **1. Recommendations**

The Panel are asked to:

- 1.1. Agree the outline Work Plan detailed in Appendix 1
- 1.2. Note the forecast Pension Fund revenue account outturn for 2022/23 (as shown in table 2, para 4.1)
- 1.3. Note the projected cash forecast for 2023/24 and budgetary estimate for 2024/25 (as shown in Appendix 2)
- 1.4. Agree the Pension Fund revenue account budgetary estimate for 2024/25 (as shown in table 2, para 4.1)

## **2. Reason for Decision and Options Considered**

- 2.1. Under the Local Government Pension Scheme (LGPS) Regulations the Council is an administering authority, and, as such required to maintain a pension fund. It is responsible for managing and administering the LGPS for a range of scheme members, as defined in the LGPS Regulations. The London Borough of Ealing (LBE) is itself a "Scheme Employer" as defined in the Regulations. It is also the appropriate administering authority or scheme manager in relation to other scheme employers. The administering authority can admit other bodies prescribed in the regulations. Where it does so, that other body will also be a scheme employer for which the LBE is the administering authority, and those of its employees who are eligible to do so (in accordance with the LGPS Regulations) may become members of the LGPS. The LBE administers (and is Scheme Manager for) the LBE Pension Fund (the Fund), which currently has 39 admitted and scheduled bodies.
- 2.2. The Work Plan deals with the Council's functions as administering authority, but does not cover the membership, administration and benefits aspect that are carried out by the London Pension Partnership Administration (LPPA). The Pension Fund Administration team have oversight for this function under a shared service agreement with Lancashire County Council.
- 2.3. The budgetary estimate outlined in this report will aid the monitoring of the Fund's income and expenditure in accordance with its requirement to manage resources effectively. The report provides details of the comparative outturn figures for 2022/23, forecast outturn figures for 2023/24 and revenue budgetary estimates for 2024/25 in respect of income and expenditure elements of the Pension Fund, excluding market value changes and profit/loss on sale of investments.

## **3. Work Plan 2024/25**

- 3.1 In 2024/25, the Council's priorities as administering authority are as follows:
  - To ensure the Fund is properly managed with sound governance arrangements that strive to achieve continuous improvement through the achievement of value for money and compliance with regulatory and best

practice requirements. Regulatory arrangements were put in place to improve governance processes with the creation of the Pension Board (the Board) from 1 April 2016. The Board has been effectively scrutinising various activities and helping to improve transparency and processes. It will continue to play a role in the scrutiny of the governance of the Pension Panel.

- High on the priority of the Pension Board is to ensure the Fund invests sustainably doing all that it can to reduce the impact of climate change on the planet. To this end the Members of the Pension Fund Panel approved a net zero target of 2045 two years ago. The Board will continue to review progress of the outline targets to achieve this objective e.g., through measuring and monitoring the Fund's carbon footprint, as well as evaluating the Fund's position across the 12 Stewardship Code principles before the Fund mounts an application to become a signatory of the stewardship code
- The Fund will in turn look to put in place the processes to allow the mounting of successful application to the Financial Reporting Council to become signatories of the Stewardship Code.
- To maximise returns to the Fund within acceptable risk parameters and stabilise the level of contributions required to be paid into the Fund by the Council in respect of past and future service liabilities.
- To ensure that the contributions set following the 2022 triennial valuation continue to be collected from scheme employers in a timely manner.
- To continue to work closely with the London Collective Investment Vehicle (CIV) to put forward Ealing views and secure the best interests for the Council and the LGPS at large.
- To devise a plan for implementation of the Fund's recently approved revised Strategic Investment Strategy and commence implementation of the .
- To ensure sound administration and reporting of the Fund's financial affairs.
- To ensure that key emerging issues are reported and communicated to interested parties and stakeholders.
- To manage, maintain, and monitor the operation of the Standalone Pension Fund Entity accounting.
- To forge ahead with the Fund's sustainable investment goal and to ensure that ongoing training sessions are carried out to enable members, officers and other key participants fulfil their stewardship roles and stay on course to achieve the Funds net zero goal by 2045.
- To ensure arrangements are put in place to prepare the Fund to comply with the Taskforce on Climate-related Financial Risks (TCFD) requirements and pooling guidance when consultation is finalised.

3.2 An outline action plan to assist with the achievement of these goals is detailed below.

**Table 1 - Key Activities and Aims for 2024/25**

ACTIVITY	PURPOSE
<b>1 Governance &amp; Staffing</b>	
Pension Fund Panel and Pension Board Member training on specific and general issues.	To provide training on specific issues ahead of decisions. To provide ongoing training to members to enable them to challenge the advice received and equip them with the tools to enter into constructive dialogue with advisers and officers before reaching a decision. Training sessions will remain a standing item on meeting agendas but may not take place if there is a very busy agenda. External collaborative training or attendance at industry events will be recommended and encouraged.
Review and refresh the key policy documents - Investment Strategy Statement, Funding Strategy Statement, Governance & Communications Policy Statement as necessary (i.e. where significant changes are made).	Seek member approval and formally publish any updated documents. Revised documents to meet proposed LGPS investment regulatory changes.
Continue to develop a high performing team through appropriate training and development of corporate finance staff supporting the work of the Pension Fund Panel.  Review the staffing arrangements of the teams to ensure that the highest service delivery is attained at a commensurate cost.	Achieve a highly motivated team with the skills to provide an excellent service for the Fund.
Minimum of four PFP and Pension Board meetings to be held during the financial year 2024/25.	To ensure that members are kept up to date on key developments both at national level and with the Fund and to ensure that approval or relevant delegation is achieved on key tasks.
Invite Fund managers (on a rolling basis to attend the PFP meeting during	To oversee fund manager activities and monitor performance to ensure that they are achieving target

ACTIVITY	PURPOSE
the year 2024/25 as is deemed necessary.	performance within the confines of the risk parameters set. Officers to continue to meet, manage and review fund managers on a regular basis in between their attendance at the PFP.
Ensure high level support is available to monitor, review and manage the risks taken by the Fund.	High level support is available via the Treasury Risk and Investment Board (TRIB) which oversees the implementation of the PFP's decisions as well as discussing new ideas for consideration. Advisers are consulted where complex decisions need to be taken by the Fund.
<b>2 Investment &amp; Accounting</b>	
Audited Annual Accounts approved by the Strategic Director Resources (Section 151 Officer) in July 2023.	To ensure that the Council meets the statutory timetable and fulfils its stewardship role.
Standalone Pension Fund Annual Report to be published on or before the statutory deadline of 1 December 2024.	Ensure that the Council fulfils its statutory obligation and keeps members abreast of the Pension Fund activities in a transparent and accessible way.
Implement the Fund's investment strategy, following the Fund's review of the Strategic Asset Allocation to determine the future asset mix.	Establish a timeline for execution of the revised strategy with a comprehensive plan for the transition. Integrate a monitoring and oversight framework into the process. Incorporate contingency planning and risk reporting throughout the implementation process.
<b>3 Communication and Customer Liaison</b>	
Run members' full AGM in quarter 4 2024/25, which will be after the Fund holds 1 to 1 meetings.	To improve communication and engagement with Fund members and promote best practice within the London Borough of Ealing.
<b>4 Funding and Actuarial Matters</b>	
Continue to carry out interim high-level valuations of the Fund on a quarterly basis and review of the 2022 valuation outcomes.	Continue to monitor and ensure that all scheme employers are paying using the correct employer contribution rates. Provide accurate fund asset valuation to the scheme actuary to enable them to

ACTIVITY	PURPOSE
	carry out the quarterly valuations. Provide clean data to the Fund's Actuary (Mercer) at year end to enable the IAS19 valuation for the year end accounts.
<b>5 Sustainability and Other</b>	
Consider and respond to any government announcements around pooling or other erelevant development concerning the LGPS.	Work closely with the LCIV to develop a proposal. Maintain an active participation and representation within relevant working groups so that the Council is able to influence decisions and secure the Fund's interest.
To continue to promote the Fund's strong standards of financial stewardship and to improve the Fund's sustainable investment objective whilst ensuring that the Fund's returns are not impacted. Implement additional measures to reduce the Fund's carbon footprint, striving towards achieving the net-zero objective by 2045.	This effort can aid in mitigating climate change while working towards its long-term objective of achieving carbon neutrality by 2045.

3.3 Appendix 1 schedules the work plan for the Pension Fund Panel in 2024/25. Interim Pension Fund Panel meetings may need to be convened if key projects or priorities have to be discussed.

#### 4. Pension Fund Revenue Account

4.1. Members are requested to note the Fund's Revenue Account forecast outturn position for 2023/24 and approve the proposed budgetary estimate for 2024/25 as set out in Table 2 below:

**Table 2 – Revenue Account Forecast Outturn 2023/24 and Proposed Budgetary Estimate 2024/25**

ITEM	Actual	Original Budget	Forecast	Proposed Budget
	2022-23	2023-24	2023-24	2024-25
	£m	£m	£m	£m
<b>INCOME</b>				
Employers' Contributions	(32.490)	(40.547)	(46.805)	(48.565)
Employees' Contributions	(14.143)	(14.514)	(14.711)	(15.359)
Transfer Values received	(9.133)	(3.183)	(4.741)	(4.742)
Compensation for Early Retirement	(0.506)	(0.475)	(0.672)	(0.673)
Other Income (interest)	(0.303)	(0.102)	(1.368)	(1.436)
<b>TOTAL INCOME</b>	<b>(56.575)</b>	<b>(58.819)</b>	<b>(68.297)</b>	<b>(70.775)</b>
<b>EXPENDITURE</b>				
Pensions	44.486	48.723	49.439	53.641
Retirement Grants	6.795	6.811	8.308	8.309
Death Grants	0.867	0.762	0.884	0.829
Transfer Values Paid	5.416	3.581	3.580	3.581
Fund Management	3.578	4.534	4.338	4.564
Administration	1.978	1.784	1.677	1.868
Refunds	0.494	0.151	0.107	0.108
<b>TOTAL EXPENDITURE</b>	<b>63.614</b>	<b>66.346</b>	<b>68.334</b>	<b>72.900</b>
<b>NET (INCOME)/EXPENDITURE</b>	<b>7.039</b>	<b>7.527</b>	<b>0.037</b>	<b>2.124</b>
Investment Income	(25.685)	(28.147)	(33.102)	(36.193)
<b>Total Income (inclusive of income held with Fund Managers)</b>	<b>(18.646)</b>	<b>(20.620)</b>	<b>(33.065)</b>	<b>(34.069)</b>

- 4.2. In-house income is forecast to be £68.297m in 2023/24 (£56.575m in 2022/23). This is largely due to changes in contribution rates emerging from the 2022 Valuation, together with larger payrolls. A few employers also opted to prepay their past service deficit contributions for 3 years and this has been accounted for in 2023/24.
- 4.3. Expenditure is expected to increase from £68.334m in 2023/24 to £72.900m in 2024/25. The increase is largely due to pension payment inflationary increase.
- 4.4. Drawdowns can be made from the three main fund managers (London CIV (Baillie Gifford), LGIM and RLAM) throughout the year to rebalance the Fund and meet day to day cash requirements. Internal cash is retained in the custodian cash account to aid transparency, segregation of accounting and performance measurement management. Some cash is retained locally in the Lloyds Pension Fund account for the day to day running of the Fund. Surplus cash is invested in Money Market Funds.
- 4.5. The Fund's cashflow forecast has been adjusted to reflect the additional costs to be incurred for further drawdowns of investments in private debt (Brightwood, Churchill, and Permira) that have gradually been funded since 2018/19, plus additional allocation following the review of private debt. The budget also takes

into account the drawdowns for the remaining impact investments commitments into Henley. In addition, the budget has allowed for possible additional resource requirement to further the Fund's sustainable investment and net zero (by 2045) ambition.

### **2024/25 Proposed Budgetary Estimate**

- 4.6. The budgetary estimate 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. The following paragraphs set out some of the assumptions behind the proposed 2024/25 budgetary estimates:

#### **Income**

4.7. **Employers (£48.565m) & Employees Contribution (£15.359m)**

Contributions reflect the rates that emerged from the 2022 valuation, effective from 1 April 2023, and allowed for a 4.4% salary increase. Financial risk of under recovery due to falling staff levels is mitigated by the deficit aspect of the employers' contribution being set as a cash value to be paid rather than a percentage of payroll within the Council's budget, meaning employer contributions are expected to be more stable over the triennial cycle.

- 4.8. 2024/25 Employee contributions have been adjusted for the anticipated 4.4% average salary increase.

#### **Transfer Values Received (£4.742m)**

- 4.9. Employees joining the Council's pension scheme can elect to transfer their previous pension benefits held with another scheme into the Fund. Employees have up to one year to elect to do so unless the new employer allows longer. Transfer value receipts are therefore difficult to estimate, the 2024/25 proposed budget is set at the 2023/24 forecast figure, the 2023/24 figure is based on actual transfers into the fund as at 31 January 2024.

4.10. **Investment Income (£36.193m)**

The 2024/25 budgetary estimate has been based on the prudent 2023/24 forecast plus an approximate 5% growth in line with the estimated growing asset base of the Fund and includes an estimate for property and private debt income. There is uncertainty regarding this forecast; however, it is realistic when compared to previous year trends.

#### **Compensation for Early Retirement (£0.673m)**

- 4.11. This is the contribution made by Council departments towards the Fund to compensate for the strain on the Fund resulting from early retirements and has been budgeted for based on current information from the Pensions Administration department to January 2024.

#### **Pensions (£53.641m)**

- 4.12. Increases in LGPS pension payments from 1 April each year are linked to CPI as at the preceding September. Under the triple lock, pensions are expected to rise by 8.5% in April 2024 in line with earnings, which follows a 10.1% increase in line with Consumer Price Index (CPI) in 2023/24.



**Retirement Grants (£8.309m), Death Grants (£0.829m), Transfer Values (£3.581m) and Refunds (£0.108m)**

- 4.13. The budgetary estimates for these expenditure items are based on 2023/24 forecast which reflect Council wide staff reorganisations.

**Fund Management & Administration (£4.564m & £1.868m)**

- 4.14 In accordance with LGPS regulations, costs relating to general administration and investment functions can be charged to the Fund. Estimates for administration and fund management are shown in the confidential Appendix 3. All estimates are based on outturn and or any specific information available. There has been an increase in the third party Fund Administration costs, and this will be discussed in the separate Administration report within this meeting agenda.

**5. Financial Implications**

- 5.1. The performance of the Fund's investments affects the required level of contributions due from employers.
- 5.2. The employers' contribution rate collected from departments for LBE is currently set at 22.0%, following the 2022 triennial valuation the total implied employers contribution rate (based on current pensionable pay) for the Council in detailed table 3 below. The deficit funding aspect has been defined as cash value so that if establishment numbers fall, the cash lump sum reimbursement needed to be paid to the Fund by the Council remains the same to ensure the level of deficit funding is maintained.
- 5.3. The final rates that emerged from the 2022 triennial valuation for both primary and secondary contributions are effective 1 April 2023 as summarised below.

**Table 3 – Employers' Contribution Rates**

	<b>2023/24</b>	<b>2024/25</b>
Service Department Contributions	22.0%*	22.0%
Certified Future Service Rate	18.7%	18.7%
Past Service deficit contributions	£5.642m	£5.887m

\*The employer contribution paid by departments is now 22% and reflects the full cost of pension.

- 5.4. As outlined in Appendix 2, the Fund's internal cash balances i.e., excluding investment income is projected to increase. This is largely due to contributions from employers. Most of the cash will be drawn down to fund the private commitments as well as rebalance the Fund. The budget assumes that a large proportion of the commitments will be drawn down in the Financial Year 2024/25. There is a requirement to draw down income from the Fund's investment income as internal cash balances are not sufficient to meet cash flow needs.

5.5. LGPS regulations specify that any net sums not immediately required should be invested in accordance with regulations. Since 2011/12 the investment of Pension Fund cash has been kept separate from LBE Council investments but invested in accordance with the Council's Treasury Management Strategy.

## **6. Legal Implications**

6.1. The delegated functions of the Pension Fund Panel include, amongst other things, acting as Scheme Manager for the fund(s) for which London Borough of Ealing is the Administering Authority. As such the Pension Fund Panel is an appropriate body to make the decisions set out in the recommendations section of this report.

6.2. In discharging their functions under the Local Government Pension Regulations, the Pension Fund Panel must have regard to:

- The need for diversification of investments of Fund's money
- The suitability of investments which they propose to make
- Proper advice obtained at reasonable intervals
- Sufficient resources exist to discharge the functions of the scheme

6.3 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1 November 2016. An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State. The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.

## **7. Value for Money**

7.1. Assessment of value for money is achieved through:

- Monthly and Quarterly performance monitoring
- Benchmarking against other Local Authority Funds and specific fund benchmarks

## **8. Risk Management Implications**

8.1. The aim of the Fund is to maximise the returns from investment within reasonable risk parameters. The Investment Strategy Statement outlines the risk parameters within which the Fund Managers execute their mandates.

8.2. This report addresses the Pension Fund budgetary estimates. Failure to manage the costs of running the various services within the Pension Fund could give rise to significant additional financial costs to the Council, qualification of the accounts, and poor value for money and reputational risks.

8.3. These risks are mitigated by controls in place for budget monitoring, performance fee setting where possible and obtaining financial intelligence on costs from the advisors, consultants, and the pension community at large. Services are regularly market tested and the authority benchmarks its costs against the national procurement framework rates other funds.

## **9. Community Safety**

9.1. None

## **10. Links to Strategic Objectives**

10.1. Sound management and monitoring of the Pension Fund investments and budgetary estimates ensures value for money is obtained for the Council through stable employer contribution rates.

## **11. Equalities and Community Cohesion**

11.1. None

## **12. Staffing /Workforce and Accommodation Implications**

12.1. Representatives of staff side Council & Trade Union Joint Committee attend the meeting and can express their views.

## **13. Property and Assets**

13.1. None

## **14. Any Other Implications**

14.1. None applicable

## **15. Consultation**

15.1. Please see attached consultation below

## **16. Appendices**

Appendix 1 – Work Plan 2024/25

Appendix 2 – Cash Flow forecast

Appendix 3 – Management and Administration Estimates (Private & Confidential)

## BACKGROUND INFORMATION

Name of consultee	Post title	Date sent to consultee	Date response Received	Comments appear in report Para:
Emily Hill	Strategic Director Resources (s151)	9/3/2024		throughout
Councillor Callum Anderson	Chair of the Pension Fund Panel	9/3/2024		throughout
Emma Horner	Assistant Director Technical Finance	9/3/2024		throughout
Justin Morley	Head of Legal Services	9/3/2024		throughout
Shahzad Ayub	Senior Lawyer	9/3/2024	12/3/2024	App 3

<b>Decision type:</b> Non-key decision	<b>Urgency item?</b> No
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Authorised by Cabinet member:	Date report drafted:	Report deadline:	Date report sent:
Report no.:	Report author and contact for queries:		
Bridget Uku (Group Manager, Treasury & Investments)			